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THE PRESIDENT'S SCHEDULE

Wednesday - May 25,1977

8:15	Dr. Zbigniew Brzezinski - The Oval Office.
8:45	Mr. Frank Moore - The Oval Office.
9:15 (15 min.)	Mr. Harvey Shapiro, New York Times Book Review. (Mr. James Fallows) - The Oval Office.
9:30	Mr. Jody Powell - The Oval Office.
10:00 (60 min.)	Meeting with His Royal Highness Prince Fahd bin 'Abd al-Aziz Al-Saud Crown Prince and Deputy Prime Minister of the Kingdom of Saudi Arabia. The Cabinet Room.
11:30 (20 min.)	Meeting with the Tennessee Congressional Delegation. (Mr. Frank Moore) - The Cabinet Room.
1:00 (1 hr.50 min.)	Budget Review Meeting. (Mr. Bert Lance). The Cabinet Room.
2:50 (10 min.)	Ambassador Malcolm Toon. (Dr. Zbigniew Brzezinski) - The Oval Office.
9:30 (30 min.)	Drop-by/Remarks at the 14th Annual Democratic Congressional Dinner - Washington Hilton Hotel.

1:00 p.m.

EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

THE PRESIDENT HAS SEEN.

MEETING ON FY 1979 BUDGET
Wednesday, May 25, 1977
1:00 p.m. (2 hours)
The Cabinet Room

FROM: W. Bowman Cutter

I. PURPOSE

To receive an overview briefing on the 1979 budget. Supporting materials are included in the attachment.

II. PARTICIPANTS

The Vice President
Bert Lance
Zbigniew Brzezinski
Stuart Eizenstat
Hamilton Jordan
Frank Moore
Jody Powell
Charles Schultze
Jack Watson
Jim McIntyre
Bo Cutter
Dale McOmber
Gail Harrison

Table 1

Economic Forecast

Based on OMB Expenditures for FY '79

	Calendar Years		
	1977	1978	1979
Increase in Real GNP (Percent) (Fourth quarter to fourth quarter)	6	5	4
Unemployment Rate (Percent) (Fourth quarter)	6-1/2 to 6-3/4	6-1/4	6
Inflation Rate (Percent) (Fourth quarter to fourth quarter)	6-1/2	6	5-1/2

Table 2

Budget Results
Based on OMB Expenditures for FY '79

	Fiscal Years		
	1977	1978	1979
	Billions of dollars		
Outlays	408	458	500
Receipts	358	399	460
Deficit	50	59	40
OMB Base			28

Now

Econ stim + in inventory
Net exports - not much help
Oil imports - will increase
St/loc spendings - move up '78 slow '79
Some rise int rates - lower housing
Fed outlays '79 + 2-3%/yr real $ (slow)

Assume 8-9% + bus inv
savings < 6 1/4%

Table 3

Alternative Economic Forecast
(With Additional Fiscal Stimulus)

	Calendar Years		
	1977	1978	1979
Increase in Real GNP (Percent) (Fourth quarter to fourth quarter)	6	5-1/2	4-1/2
Unemployment Rate (Percent). (Fourth quarter)	6-1/2 to 6-3/4	6	5-3/4
Inflation Rate (Fourth quarter to fourth quarter)	6-1/2	6	5-3/4

#3 shortfall
#12 stimulus

Table 4

Budget Results of Alternative Economic Forecast
(With Additional Fiscal Stimulus)

	Fiscal Years		
	1977	1978	1979
	Billions of dollars		
Outlays	408	462	512
Receipts	358	399	465
Deficit	50	63 +4	47 +7

1% = $1.6 B ???

1:00 p.m.

THE PRESIDENT HAS SEEN.

C

THE WHITE HOUSE

WASHINGTON

May 24, 1977

MEMORANDUM FOR: THE PRESIDENT

FROM: STU EIZENSTAT Stu

SUBJECT: Background for Budget Briefing

I am concerned that the economic assumptions underlying our budget projections are more optimistic than projections of Congressional and independent forecasters.

Year to year percentage growth in GNP

	77	78	79	80	81	Average (includes '76)
OMB Base	5.7	5.9	5.2	5.0	4.2	5.17
OMB Alternative (moderate growth in 1978)	5.7	4.1	5.2	5.0	4.2	4.87
Data Resources Inc. (More moderate growth declining toward the historic average)	4.8	5.2	4.4	4.5	3.7	4.60
CBO "Optimistic" (Moderate early growth, followed by reacceleration by 1981)	5.4	5.4	4.5	4.9	5.0	5.03
CBO "Less Optimistic" (Closer to historic averages)	5.4	5.4	4.1	3.9	4.0	4.63
Wharton Forecast (Cyclical decline anticipated in 1979)	5.4	5.8	3.9	2.2	2.9	4.38
CEA Forecast (Based on OMB fiscal projections)	6.0	5.0	4.0	---	---	

Note that two of the three most optimistic growth paths are the OMB estimates.

During the six years of strongest economic growth since WW II, 1962-67, growth averaged 4.93 percent. This was achieved with major tax cuts, war expenditures and relatively low rates of inflation. The historical average growth rate in the 30 years since WW II is 3.32 percent.

The crucial importance of these differences between OMB growth assumptions and the projections of other analysts is illustrated by the OMB statement that a 1 percent lower growth rate means a net annual budget loss in lost revenues and increased outlays of $38 billion. In other words if growth averages only 4.0 percent between now and 1981 (which is still well above historical averages), the $26.2 billion surplus above the OMB alternative baseline turns into a $9 billion deficit. If economic growth rates are closer to historical averages than to the OMB base path we will be forced to choose between a balanced budget and full employment.

The questions in my mind are (1) whether we are doing enough early on to spur the growth we will need to come at all close to the FY 1981 employment and balanced budget targets and (2) whether our goals are realistically achievable by FY 1981.

In the light of these concerns, I would recommend that we give serious consideration to additional stimulation along the lines suggested by Charlie Schultze in his May 24 memo.

THE PRESIDENT HAS SEEN.

THE CHAIRMAN OF THE
COUNCIL OF ECONOMIC ADVISERS
WASHINGTON

C

May 24, 1977

MEMORANDUM FOR THE PRESIDENT

FROM: Charlie Schultze CLS

SUBJECT: Economic and Budgetary Outlook for Fiscal 1979

Tomorrow afternoon (May 25), OMB will be giving you an overview of the budgetary outlook for fiscal 1979. The presentation starts with the same approach that was employed in our presentation to Congressional leaders on May 2 of the budget outlook for fiscal 1981, namely:

- A base economic growth rate is assumed.
- Given this assumed growth rate, Federal revenues and the size of the deficit are calculated.

To supplement the OMB presentation, I will try to outline a view of the budget planning problem for fiscal 1979 that recognizes the two-way interrelationship between the budget and the performance of the economy. In particular, we have to ask the question whether or not the assumed economic growth rate can be reached, given the OMB projection of Federal expenditures. (OMB is aware of this problem and we have discussed our results with them.)

- We start with the 1979 OMB expenditure figures and current tax laws, and ask what the likely effects would be of those expenditures and tax laws on the economy.
- Based on our best-guess estimate of economic performance, we then calculate the probable level of Federal revenues and the deficit.

I want to warn you that the economic forecast for 1979 we will present reflects very preliminary thinking. We have underway at the present time an intensive review of the probable performance of the economy through the

end of 1978. This exercise will be completed in time to give you more refined results before the spring budget preview is over.

Major Assumptions. The principal assumptions underlying our very tentative economic forecast for 1979 are as follows:

1) Federal outlays in fiscal 1978 are assumed to fall short of the OMB estimate by $6 billion, but to come back on track in fiscal 1979 to the levels projected by OMB.

2) Monetary policy remains fairly expansive.

   - Growth of the money supply stays somewhat above the high end of the ranges currently being projected by the Federal Reserve.

   - Interest rates rise moderately this year, but do not increase further in 1978 and 1979. For example, the 3-month Treasury bill rate (about 5 percent presently) goes to about 6 to 6-1/4 percent by late this year and then stays in that range.

3) Developments on the price side work out optimistically. We assume some moderation in the rate of increase of wages and industrial prices, and only a modest rise of food prices.

Economic Forecast

Given the pattern of expenditures described above, our best guess is that the pace of economic expansion would slow from about 6 percent in 1977 to 5 percent in 1978 and 4 percent in 1979 (see Table 1). The unemployment rate would fall to just over 6 percent by the end of next year, but decline only slightly further during 1979. The rate of inflation subsides to about 5-1/2 percent during 1979. This estimate includes an allowance for the effects of the well-head tax on prices.

The reasons for expecting some slowdown in growth are numerous.

- Rising inventory investment is providing a good deal of thrust to overall economic activity this year. This source of stimulus cannot continue without creating imbalances in the level of inventories relative to sales.

- Net exports will provide little or no stimulus because recovery abroad is lagging and our oil imports will still be rising.

- State and local expenditures will grow fairly strongly in late 1977 and 1978 as the jobs programs and countercyclical revenue sharing gather strength, but growth will slow in 1979.

- In 1979 Federal outlays, adjusted for inflation, rise only moderately. The real increase in these outlays amounts to about 5 percent in fiscal 1978 and 2-1/2 percent in fiscal 1979.

- Even with fairly expansive monetary policy, rising interest rates will take the steam out of the boom in housing.

Given these elements of relative weakness, it would take very large increases in business fixed capital outlays and in personal consumption expenditures to achieve a real economic growth significantly above the figures in our forecast for 1978 and 1979. We do project healthy increases in real investment spending -- between 8 and 9 percent in 1978 and 1979. And we keep the consumer saving rate to 6-1/4 percent. But that is not enough to achieve the base economic growth path. While larger increases in investment and consumption could develop, we have no present evidence that they will.

Budget Results. Table 2 translates this economic forecast into its implications for the budget.

Our estimates for outlays differ from those of OMB because (1) we assume a $6 billion shortfall in FY 1978, and (2) our estimates of expenditures for income maintenance are a little higher in fiscal 1979, since unemployment is higher than in OMB's base economic growth assumption.

Our estimates for revenues fall below those of OMB because the growth rate of real GNP we are forecasting is lower than the base economic growth rate. Our revenue estimates, however, are very rough. We have not had time to do a precise translation from the economic forecast to its implications for tax revenues.

If the economy grows along the path we are tentatively forecasting, the budget deficit for fiscal 1979 will be about $40 billion -- considerably higher than the $28 billion projected from the base economic growth rate.

An Alternative Projection

The preliminary economic forecast for 1978 and 1979, based on the OMB planning numbers, suggests that economic growth may fall below the rate that would lead us to high employment in 1981. We have therefore experimented with an alternative forecast which assumes a more expansive fiscal policy. Specifically:

- We add back $3 billion of the shortfall of expenditures assumed in fiscal 1978.

- We assume some combination of tax reductions (which might be included in tax reform proposals) and expenditure increases amounting to an additional $12 billion in fiscal thrust in FY 1979.

Table 3 shows the results of this exercise for the performance of the economy. Economic growth is boosted to 5-1/2 percent in 1978 and to 4-1/2 percent in 1979. The unemployment rate by the fourth quarter of 1979 is down to 5-3/4 percent. The rate of inflation is raised a little in 1979 because of more vigorous economic expansion but is still under 6 percent.

Table 4 shows the effects of this exercise on the budget. For fiscal 1979, the estimated deficit would be about $47 billion, or some $7 billion higher than in the forecast using OMB's budget expenditures. A little less than half of the $12 billion in fiscal thrust added to the FY 1979 budget in this exercise is being offset by the effects of faster economic growth on revenues.

Attachments

Table 1

Economic Forecast

Based on OMB Expenditures for FY '79

	Calendar Years		
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Increase in Real GNP (Percent) (Fourth quarter to fourth quarter)	6	5	4
Unemployment Rate (Percent) (Fourth quarter)	6-1/2 to 6-3/4	6-1/4	6
Inflation Rate (Percent) (Fourth quarter to fourth quarter)	6-1/2	6	5-1/2

Table 2

Budget Results
Based on OMB Expenditures for FY '79

	Fiscal Years		
	1977	1978	1979
	Billions of dollars		
Outlays	408	458	500
Receipts	358	399	460
Deficit	50	59	40

Table 3

Alternative Economic Forecast
(With Additional Fiscal Stimulus)

	Calendar Years		
	1977	1978	1979
Increase in Real GNP (Percent) (Fourth quarter to fourth quarter)	6	5-1/2	4-1/2
Unemployment Rate (Percent) (Fourth quarter)	6-1/2 to 6-3/4	6	5-3/4
Inflation Rate (Fourth quarter to fourth quarter)	6-1/2	6	5-3/4

Table 4

Budget Results of Alternative Economic Forecast
(With Additional Fiscal Stimulus)

	Fiscal Years		
	1977	1978	1979
	Billions of dollars		
Outlays	408	462	512
Receipts	358	399	465
Deficit	50	63	47

1979 BUDGET
SPRING PRESIDENTIAL REVIEW

OVERVIEW

THE PRESIDENT HAS SEEN.

THE BUDGET OUTLOOK -- AN OVERVIEW

Introduction

During the month of June, nine Presidential review meetings are scheduled to consider agency budgets. These reviews will culminate in guidance to the agencies on their 1979 budget requests, but part of the discussion will be focused on an analysis of the longer term implications of current policies -- particularly implications for a balanced budget in 1981.

At the May 3 meeting with the cabinet and congressional leaders, OMB's preliminary long-range projections were discussed. Since then, OMB has concluded an initial review of agency spending totals and has developed specific agency recommendations that will be discussed in the subsequent sessions. This paper provides revised estimates of the budget outlook reflecting:

-- current programs and specific Administration policies that have been decided on to date; and,

-- OMB recommendations for planning ceilings to be given each major agency.

An additional overview paper will be prepared after Presidential review of specific issues with OMB and agency heads. That paper will be the basis for decisions on final agency planning ceilings for 1979 and beyond.

Earlier [April] projections of receipts showed receipts of $465.6 billion and outlays of $492.1 billion for 1979, and a deficit of $26.5 billion. The same projections showed 1981 receipts of $584.9 billion, and outlays of $555.0 billion, with a surplus of $29.9 billion. The effect of current OMB recommendations, using base path economic assumptions, yield projected 1979 receipts of $470.2 billion and outlays of $498.5 billion, and a deficit of $28.3 billion. Under the same assumptions, 1981 receipts are projected to be $603.9 billion, outlays $555.0 billion, and the surplus is projected to be $48.9 billion.

The OMB recommendations are based on reviews of specific agency and program issues -- the totals have not been examined in terms of their fiscal policy implications. Charlie Schultze will address the latter subject. Further, it should be kept in mind that the projections are conservative, particularly for budget outlays. They price out the effects of current programs and specific Administration proposals that have been decided upon to date. They do not include the costs of new programs under development such as national health insurance. Further, it is generally assumed that there will be no changes in operating levels of existing programs, and that temporary counter-cyclical programs are allowed to phase out as the economy moves toward full-employment. (However, jobs programs that are part of welfare reform are expected to phase in as counter-cyclical programs phase out.) Moreover, adjustments for future inflation are included only for those programs tied by law to the cost of living or for procurement that requires long lead time. Finally, they do not include possible effects of Congressional action beyond what the Administration plans to propose, such as more costly welfare reform.

Income tax presumptions?

Summary

Table 1 shows the current fiscal outlook based on the two alternative economic paths developed in April. Both paths assume a sustained economic expansion and a diminution in the rate of inflation to 4%. The only difference in the two paths is that the calendar year 1978 rate of economic expansion is higher under the base economic path. These economic assumptions are being reconsidered at this time; revisions will be reflected in our final overview session next month.

Revised Estimates of Receipts

Four major factors have altered our earlier estimates of receipts:

-- the recently enacted tax bill;
-- the energy tax proposals;
-- the social security tax proposals;
-- Treasury reestimates for 1979-82

As table 2 shows, these factors have resulted in downward revisions in estimated receipts in 1977 and 1978, but significant increases in subsequent years. In 1981,

Table 1
THE FISCAL OUTLOOK
(fiscal years; in billions of dollars)

	1977	1978	1979	1980	1981	1982
Base Economic Path						
Base projection						
Receipts	358.1	401.1	470.2	536.2	603.9	669.0
Outlays	408.2	463.6	496.2	529.2	561.7	600.3
Surplus or deficit	-50.1	-62.5	-26.0	-7.0	42.2	68.7
Effect of OMB Recommendations						
Receipts	358.1	401.1	470.2	536.2	603.9	669.0
Outlays	408.2	464.2	498.5	526.5	555.0	589.0
Surplus or deficit	-50.1	-63.1	-28.3	9.7	48.9	80.0
Alternative Economic Path						
Base Projection						
Receipts	358.1	398.5	459.4	523.6	590.3	654.8
Outlays	408.2	463.9	497.7	531.5	564.1	603.7
Surplus or deficit	-50.1	-65.4	-38.3	-7.9	26.2	51.1
Effect of OMB Recommendations						
Receipts	358.1	398.5	459.4	523.6	590.3	654.8
Outlays	408.2	464.7	500.0	528.8	557.4	592.4
Surplus or deficit	-50.1	-66.2	-40.6	-5.2	32.9	62.4

Table 2
ESTIMATED RECEIPTS, 1977-82
(in billions of dollars)

	Fiscal Years					
	1977	1978	1979	1980	1981	1982
April estimates (base economic path)...	359.5	404.7	465.6	522.9	584.9	645.0
Revisions:						
Recently enacted tax bill (H.R. 3477).....	-1.4	-4.0	-3.0	-1.4	-1.3	-1.3
Energy proposals.....	---	.3	2.2	4.8	5.4	6.0
Social security tax proposals.....	---	---	1.3	5.3	9.5	13.2
Treasury reestimates.....	---	---	4.1	4.7	5.4	6.0
Subtotal, revisions.....	-1.4	-3.7	4.6	13.4	19.0	24.0
Current estimates (base economic path).	358.1	401.1	470.2 *11.9	536.2	603.9 ← *13.6	669.0
Effect of alternative economic path..	---	-2.6	-10.8	-12.6	-13.6	-14.2
Current estimates (alternative economic path).....	358.1	398.5	459.4 *11.9	523.6	590.3 ← *13.6	654.8

* = income tax / income = %

receipts are $19.0 billion higher than estimated only a month ago, with half of the upward revision due to higher social security taxes.

As you know, Secretary Blumenthal is considering tax reform proposals that might reduce receipts by as much as $24 billion annually by 1981. The receipts estimates and budget totals shown above do not take into account the effects of these tax reform proposals. The effect on the deficit could be less than $24 billion because the stimulus resulting from the program would increase economic growth and tax receipts and lower outlays for unemployment and jobs programs. However, since we cannot forecast economic events with accuracy that far into the future it is difficult to estimate the precise net effect of such a program on the estimates of the deficit that we are currently using.

Revised Outlays Estimates

Since the projections developed in April, revisions due to such factors as the energy proposals and interest reestimates have raised outlays by $4.1 billion in 1979 and $6.7 billion in 1981. Thus the April base estimate for 1979 of $492.1 billion is revised to $496.2 billion, while the April base estimate for 1981 of $555.0 billion is revised to $561.7 billion. Given revised receipt estimates, the base estimate for the 1979 deficit is $26.0 billion, and the base estimate for the 1981 surplus is $42.2 billion. The most significant increase is due to the energy proposals which are offset on the receipts side.

OMB recommended levels are substantially lower in 1980 and beyond. These decreases reflect lower outlay projections for defense of $122 billion in 1979, but for 1981 the current OMB recommendation for defense is nearly $11 billion below the earlier projection. The differences between the base outlay amounts and the OMB recommended level understates the extent to which the recommended level implies program changes. This is because the recommended level includes both increases and decreases to the base, and the table merely reflects the net effect of such proposals.

The reduction in defense is partly offset by increases for welfare reform -- $5.5 billion in 1981. (Because the projected net increase in outlays for the proposal

Table 3
REVISED OUTLAY ESTIMATES, 1977-82
(in billions of dollars)

	1977	1978	1979	1980	1981	1982
April estimates (base economic path)..	408.1	462.6	492.1	523.5	555.0	592.7
Revisions:						
Energy proposals.....	(---)	(1.7)	(3.0)	(4.7)	(5.3)	(6.3)
Interest reestimates.....	(0.1)	(0.8)	(1.1)	(1.0)	(1.4)	(1.3)
Changes in contingencies.....	(---)	(-1.5)	(---)	(---)	(---)	(---)
Subtotal, revisions.....	0.1	1.0	4.1	5.7	6.7	7.6
Current base estimate.....	408.2	463.6	496.2	529.2	561.7	600.3
Effect of tentative OMB recommendations.....	---	0.6	2.3	-2.7	-6.7	-11.3
Current OMB "recommended" level.....	408.2	464.2	498.5	526.5	555.0	589.0
Effect of alternative economic assumptions.....	---	.3	1.5	2.3	2.4	3.4
Current OMB "recommended" level (alternative economic path).....	408.2	464.5	500.0	528.8	557.4	592.4

current cost estimate

+12 -10

+5% /yr

Potential Budget Requests

We can expect to be faced with significantly higher outlay proposals than these figures contemplate. In our initial review of plans, taking into account both what the Congress may do, and agency and interest group preferences we came to the following "higher alternative" levels:

	Amount	Increase Over Recommended Level
1979.....	530	+31.5
1981.....	605	+50

#498.5 = Spring guidance number - took skeptical budget look (pro6 low figure)

Table 4
PROJECTED OUTLAYS BY AGENCY
(in billions of dollars)

Department or other unit	1978 Current estimate	Fiscal Years 1979	1980	1981	1982
Legislative Branch	1.1	1.2	1.1	1.1	1.1
The Judiciary	.5	.5	.5	.5	.5
Executive Office of the President	.1	.1	.1	.1	.1
Funds Appropriated to the President	6.6	5.5	4.4	4.6	5.2
Department of Agriculture	17.8	17.9	17.6	18.2	17.7
Department of Commerce	4.8	4.4	2.9	2.4	2.3
Department of Defense - Military	109.1	118.4	126.4	133.5	142.0
Department of Defense - Civil	2.6	2.6	2.6	2.7	2.4
Department of Health, Education, and Welfare	164.1	180.0	196.9	214.7	233.3
Department of Housing and Urban Development	9.0	9.9	11.3	12.5	13.5
Department of the Interior	3.7	3.9	4.2	4.2	3.8
Department of Justice	2.4	2.5	2.5	2.5	2.4
Department of Labor	24.1	20.6	16.0	15.4	15.6
Department of State	1.3	1.4	1.5	1.6	1.8
Department of Transportation	15.1	16.1	16.5	16.5	16.6
Department of the Treasury	54.6	57.4	59.8	61.7	63.9
Energy Research and Development Administration	6.3	6.9	7.1	6.4	6.5
Environmental Protection Agency	6.1	6.3	5.9	5.5	5.7
General Services Administration	.4	.3	.3	.3	.3
National Aeronautics and Space Administration	3.9	4.3	4.2	3.9	3.5
Veterans Administration	19.1	19.5	19.6	19.4	19.4
Other independent agencies	26.4	28.1	29.2	28.9	31.1
Allowances	1.1	7.9	14.3	18.0	20.9

Table 4 (continued)
PROJECTED OUTLAYS BY AGENCY
(in billions of dollars)

Department or other unit	1978 Current estimate	Fiscal Years 1979	1980	1981	1982
Undistributed offsetting receipts:					
Employer share, employee retirement.....	-4.7	-4.9	-5.2	-5.6	-5.9
Interest received by trust funds.....	-8.6	-9.7	-10.6	-11.5	-12.5
Rents and royalties on the Outer Continental Shelf.....	-2.7	-2.5	-2.5	-2.5	-2.5
TOTAL.....	464.2	498.5	526.5	555.0	589.0

NOTE: Allowances include the following amounts for undistributed effects of energy and welfare reform initiatives (in millions of dollars):

	1978	1979	1980	1981	1982
Energy.....	---	190	700	1,390	1,890
Welfare Reform.....	---	1,765	5,033	5,500	5,500
Civilian agency pay raises.....	1,087	2,221	3,435	4,695	5,878
Purchase inflation.....	---	3,750	5,050	6,450	7,700

Table 5
PROJECTED OUTLAYS BY FUNCTION
(in billions of dollars)

	Fiscal Years				
	1978 Current estimate	1979	1980	1981	1982
National defense	112.8	122.2	129.3	136.4	144.7
International affairs	7.1	7.0	7.2	7.4	7.8
General science, space, and technology	4.7	5.2	5.0	4.8	4.5
Natural resources, environment and energy	21.8	22.7	22.1	19.7	20.6
Agriculture	4.8	4.7	4.2	4.3	3.6
Commerce and transportation	20.2	20.5	21.3	20.9	20.9
Community and regional development	10.1	9.3	7.6	7.4	7.4
Education, training, employment and social services	27.0	24.8	20.9	20.5	20.6
Health	44.6	50.1	56.2	63.1	70.9
Income security	147.4	159.1	172.2	185.8	199.5
Veterans benefits and services	19.1	19.5	19.6	19.5	19.4
Law enforcement and justice	3.9	3.9	4.0	4.0	4.0
General government	4.0	4.2	4.1	4.0	3.9
Revenue sharing and general purpose fiscal assistance	9.9	9.0	8.5	8.7	8.8
Interest	41.7	45.5	48.4	50.2	52.3
Allowances:					
Civilian agency pay raises	1.1	2.2	3.4	4.7	5.9
Contingencies for other requirements	---	5.7	10.8	13.3	15.0
Undistributed offsetting receipts:					
Employer share, employee retirement	-4.7	-4.9	-5.2	-5.6	-5.9
Interest received by trust funds	-8.6	-9.7	-10.6	-11.5	-12.5
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NOTE: Allowances include the following amounts for undistributed effects of energy and welfare reform initiatives (in millions of dollars):

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Purchase inflation	---	3,750	5,050	6,450	7,700

have not yet been allocated by agency, those outlays are currently being carried as part of allowances for contingencies).

Our earlier [April] estimates showed small deficits in 1980, whereas the new base path projections and OMB recommended levels show a surplus for that year. However, the amounts are easily weithin our normal margin of error and the alternative economic assumptions produce deficits. For 1981 our earlier projected surplus of $30 billion is now $42 billion and $49 billion under current OMB recommendations. The alternative economic path results in a $16 billion decrease in the deficits. The more favorable outlook reflects, to a considerable degree, the difficulty in making precise estimates for future years. Underlying program changes have not been so significant as the figures might suggest, and we have not changed the economic assumptions.

Potential Additions to the Budget

Potential additions to the budget, and the inclusion in the budget of currently off-budget Federal entities could add as much as $32.5 billion in 1979, $70.0 billion in 1981, and, taken in total, reduce the projected surplus by the same amount.

Table 6 summarizes by budget function the outlay effects of various large potential claims on the budget -- including congressional add-ons as well as possible Administration initiatives -- that are now foreseeable. While some of the potential budget increase are less likely to occur than others, it is interesting to note that of approximately 100 "budget threats" identified just one month ago, at least 12 have already been realized. The three major spending threats included in table 6 are: defense spending $12 billion higher in 1981 than the projected OMB recommendation level; a national health insurance program (+$13 billion); and the possibility that welfare reform could add as much as $7-1/2 billion to the currently projected costs of welfare reform by 1981. Another claim on the budget margin lies in an accounting change that would restore to the budget $7-1/2 billion in Federal spending that is now off-budget. Nonenactment of the Administration's social security tax proposals would mean a $9-1/2 billion 1981 receipts loss. Also, while no figures are shown in Table 4, tax reform could entail substantial loss of income tax receipts. Even if

the Administration were to propose tax reform with no net cost, the Congress would be likely to alter such a plan at a cost something like $10-15 billion per year.

Failure to realize the economic growth/inflation path assumed above presents yet another significant "budget threat." Inflation (insidiously enough) helps to balance the budget. As incomes are inflated in nominal dollar terms, people are pushed into higher tax brackets and tax receipts rise at a faster rate than incomes. Spending programs also are increased by inflation, but the adjustment mechanisms involve significant lags, and the outlay side of the budget does not rise nearly as rapidly as receipts. Were the inflation rate to be 1% lower than in the assumptions used above, 1981 receipts would be reduced by about $29 billion. Outlays, however, would only be reduced by perhaps $15 billion -- resulting in a $14 billion smaller 1981 budget margin.

Strong real growth in the economy -- as opposed to higher inflation -- is an even more critical element in balancing the budget. Unlike inflation real economic growth adds nothing to the costs of the Government; indeed,it reduces the costs of unemployment compensation and related employment programs. At the same time it increases nominal incomes (and pushes people into higher tax brackets) just as inflation does. Strong real growth also tends to increase the share of income appearing as corporate profits (at a 47% marginal tax rate, as opposed to a 10% average tax rate for the personal income tax). Obviously, the reverse is also true: a sustained 1% lower real economic growth rate, beginning in FY 1978, than assumed above implies perhaps $32 billion less in receipts than the "base" case in 1981 and perhaps $4 billion more outlays for unemployment compensation and at least $2 billion more in related public employment programs. Thus, the total affect of a 1% lower real growth rate on the 1981 budget margin would be on the order of a $38 billion reduction.

Table 6
POTEN[illegible]L BUDGET ADD-ONS
(fiscal year [illegible]n billions of dollars)

	1978	1979	1980	1981	1982
Outlays:					
National defense	-*	2.2	7.0	12.1	14.5
International affairs	*	1.2	1.7	2.6	3.3
General science, space, and technology	---	0.3	0.6	0.9	1.0
Natural resources, environment, and energy	1.1	3.5	4.4	4.8	4.3
Agriculture	0.8	1.2	1.1	0.4	0.2
Commerce and transportation	0.6	1.6	3.2	3.9	4.0
Community and regional development	0.2	0.2	0.4	0.5	0.7
Education, training, employment, and social services	1.0	2.8	4.1	4.3	4.3
Health	0.9	2.1	9.3	17.6	20.7
Income security	2.8	5.7	8.4	11.6	15.0
Veterans benefits and services	1.1	2.0	2.5	2.8	3.2
Other	0.2	0.8	0.9	0.9	0.9
Subtotal, potential spending add-ons	8.8	23.7	43.5	62.4	72.1
Effect of including outlays of off-budget Federal entities in budget	8.4	8.8	8.3	7.6	6.0
Subtotal, potential spending add-ons including off-budget Federal entities	17.2	32.5	51.8	70.0	78.1
Receipts (potential losses):					
Nonenactment of social security tax proposals	---	1.3	5.3	9.5	13.2
Federal reserve earnings	.3	.3	.3	.3	.3
Subtotal, potential receipts losses	.3	1.6	5.6	9.8	13.5
Total, potential additions to deficit	17.5	34.1	57.4	79.8	91.6

* $50 million or less.

Table 7

ECONOMIC ASSUMPTIONS
(calendar years; dollar amounts in billions)

	1976 actual	1977	1978	1979	1980	1981	1982
Base Economic Assumptions							
Gross national product:							
Current dollars:							
Amount	1,692	1,875	2,108	2,354	2,594	2,826	3,057
Constant (1972) dollars:							
Amount	1,265	1,325	1,402	1,479	1,554	1,625	1,691
Percent change (fourth quarter over fourth quarter)	5.0	5.7	5.9	5.2	5.0	4.2	4.0
Consumer price index (percent change, December over December)	4.8	6.7	5.6	5.3	4.5	4.0	4.0
Unemployment rate (percent)	7.7	7.2	6.4	5.8	5.2	4.8	4.5
Alternative Assumptions							
Gross national product:							
Current dollars:							
Amount	1,692	1,875	2,089	2,314	2,551	2,778	3,006
Constant (1972) dollars:							
Amount	1,265	1,325	1,389	1,454	1,528	1,598	1,663
Percent change (fourth quarter over fourth quarter)	5.0	5.7	4.1	5.2	5.0	4.2	4.0
Consumer price index (percent change, December over December)	4.8	6.7	5.6	5.3	4.5	4.0	4.0
Unemployment rate (percent)	7.7	7.2	6.5	6.0	5.5	5.0	4.8

THE WHITE HOUSE
WASHINGTON
May 25, 1977

Jack Watson

The attached is forwarded to
you for your information.

Rick Hutcheson

Re: Proposed Sugar Program

THE WHITE HOUSE

WASHINGTON

May 24, 1977

MEMORANDUM FOR: THE PRESIDENT

FROM: STU EIZENSTAT
LYNN DAFT

SUBJECT: Proposed Sugar Program

A draft announcement of the new USDA sugar program is attached for your approval. You had asked Secretary Bergland to let you see it before it was made final. Upon your approval, these provisions will be published in the Federal Register with an invitation for comment.

Per your earlier instructions, the program will be effective with the 1977 crop. The eight different harvesting periods for the 1977 crop are described on page 2 of the proposed press release. Stocks remaining from the 1976 crop will not be eligible for payment.

The other issue of some sensitivity is the magnitude of payment to be retained by the processor. The USDA guidelines require processors to pay the grower all the subsidy payment except a reasonable amount to be retained to cover administrative overhead, not to exceed 10 percent of the payment. The USDA feels some retention by processors is necessary to (a) secure processor participation and (b) comply with the legal authority.

We recommend that you approve the USDA guidelines as drafted.

Decision.

_____ Approve

_____ Disapprove

DEPARTMENT OF AGRICULTURE
OFFICE OF THE SECRETARY
WASHINGTON, D. C. 20250

May 24, 1977

MEMORANDUM FOR THE PRESIDENT

FROM: Bob Bergland
Secretary

SUBJECT: Proposed Provisions of Sugar Program

You asked to see our proposals for operating the sugar program before they are announced.

A notice of proposed rulemaking must be published and interested parties given at least 30 days for comment.

I have attached the complete statement of proposed provisions. Our resolution of the two controversial provisions are noted below.

1. Payments will be made on sugar marketed after May 4 from the 1977 Crop. (Stocks in processors' inventories as of May 4 will not be eligible for payment.)

2. Processors are required to pay the grower all the subsidy payment except a reasonable amount to be retained by the processor to cover administrative overhead associated with the program. This is necessary to secure processor participation, but in no case may it exceed 10 percent of the payment.

Upon your clearance, the following provisions will be announced by the Department and published in the Federal Register.

Attachment

McDavid (202) 447-4026

NEWS
U.S. DEPARTMENT OF AGRICULTURE

PROPOSED SUGAR PRICE SUPPORT PROGRAM OUTLINED BY SECRETARY BERGLAND:

WASHINGTON, May 23--Secretary of Agriculture Bob Bergland today outlined some of the proposed provisions of the sugar price support payments program. The program is being instituted in response to the request of President Carter in his decision announced on May 4.

The President requested the Secretary to institute the program on the basis of a strong belief that a viable domestic sugar industry is vital to the economic well-being of the American people. He decided that, pending the negotiation of an International Sugar Agreement, a program which offers payments of up to two cents per pound of sugar was necessary to assist U.S. producers and processors through the present period of low prices. These payments will help cover the costs of production.

The objective of the program is to support prices in the market place for sugarbeet and sugarcane growers through payments made to sugar processors. This is authorized by Section 301 of the Agricultural Act of 1949, as amended (7 U.S.C. 1447). The statute does not authorize the Secretary to make direct payments to the growers since such payments would not support the price which growers would receive in the market place.

The support price will be 13.5 cents per pound, raw sugar equivalent. This price was determined to be the level of support necessary to cover the average cost of producing and processing sugarbeets and sugarcane in efficient domestic producing areas. The program will be effective with the 1977 crop year. Sugar in inventory from crops prior to 1977 will not be eligible for price support.

- more -

The proposed program includes the following general provisions:

1. The 1977 crop year would be defined, by area, as sugarbeets and sugarcane generally harvested during the following periods:

Sugar Producing Area	Harvesting Period
A. Mainland Beet	
All States, Excluding California and Arizona	September-November 1977
California, excluding southern area	June 1977 - February 1978
Southern California	March-August 1978
Arizona - lowland area	April-June 1978
Arizona - upland area	September-November 1977
B. Mainland Cane	
Louisiana	October 1977-January 1978
Florida	October 1977-May 1978
Texas	October 1977-May 1978
C. Hawaii	Calendar Year 1977
D. Puerto Rico	December 1977-July 1978

2. Raw cane sugar and refined beet sugar marketed from the 1977 crop on or after May 4, 1977, would be eligible for price support payments.

3. The basis of payment would be the difference between the U.S. weighted average price, raw sugar equivalent, received by processors each quarter from the sale of sugar in the market place and the support price of 13.5 cents per pound.

4. If the national average market price received by processors is less than the support price of 13.5 cents per pound, processors would be paid the difference up to a maximum of 2 cents per pound.

5. If the national average market price received by processors is more than the support price of 13.5 cents per pound, no government payment would be made.

6. Payment would be made on the quantity of sugar marketed by the processor each quarter, except that the initial "payment period" would cover 1977 crop sugar marketed from May 4 through June 30, 1977.

To be eligible for program payments, it is proposed that the grower and processor would have to comply with specified requirements. The proposed program would require that the:

1. Grower and processor have a written contract stipulating the grower's share of proceeds from the sale of sugar in the market place and the method of payment.

- more

2. Processor pay the grower all the price support payment except a reasonable amount which may be retained by the processor to cover administrative overhead associated with the program. In no case may this amount exceed 10 percent of the price support payment.

3. Processor certify the quantity of sugar in inventory at the beginning of the 1977 crop harvesting period.

4. Processor certify and submit a report showing the quantity of sugar marketed from the 1977 crop each quarter and the actual proceeds received therefrom.

5. Processor certify that growers have been or will be paid in accordance with their contractual agreement before any price support payment is made.

The Department intends to include the provisions outlined by Secretary Bergland in a Notice of Proposed Rule Making to be published in the Federal Register in the near future. Interested persons will be invited to comment on the details before they are adopted.

- - - - - - - -

THE WHITE HOUSE
WASHINGTON

May 25, 1977

Bert Lance -

The attached was returned in the President's outbox. It is forwarded to you for appropriate handling.

Rick Hutcheson

Re: Assistance for Outer Continental Shelf Impacts

cc: Stu Eizenstat
Jack Watson

THE WHITE HOUSE
WASHINGTON

ACTION	FYI	
		MONDALE
		COSTANZA
	X	EIZENSTAT
		JORDAN
		LIPSHUTZ
		MOORE
		POWELL
X		WATSON

	ENROLLED BILL
	AGENCY REPORT
	CAB DECISION
	EXECUTIVE ORDER

Comments due to Carp/Huron within 48 hours; due to Staff Secretary next day

FOR STAFF

THE WHITE HOUSE
WASHINGTON

Mr. President:

Comments from Eizenstat and Watson are attached.

Mammoth attachments from OMB were deleted.

Rick

EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

MAY 17 1977

ACTION

MEMORANDUM FOR: THE PRESIDENT

FROM: Bert Lance

SUBJECT: Assistance for outer continental shelf impacts

Background

Committee mark up on the outer continental shelf bill (H.R. 1614) will begin in mid-May in the House. Efforts will be made to amend the bill to include provisions for non-discretionary revenue sharing from OCS receipts.

H.R. 935 is one likely approach which provides for non-discretionary sharing of 25% of offshore receipts with the coastal States. Although it was introduced by Congressman Hughes of New Jersey, the Louisiana delegation has pushed for non-discretionary revenue sharing in the past and is likely to support this or a similar approach again. The Administration will soon have to take a position on the issue.

You were quoted in the October 31, 1976 New Orleans Times-Picayune as saying: "In the far west, in coal mining areas, there's been a liberal law passed to give local and State people a chance to help finance the extra costs.... I think it's time we had a fair allocation of Federal funds to give local and State governments so you can still have a good quality of life and still supply oil and natural gas to the country." The article stated that your issues staff elaborated that you support the sharing of OCS revenues with coastal States rather than other previously enacted Federal impact aid.

Analysis

Our analysis of the issue is fully described in the attached staff papers. They conclude that:

- OCS activities normally will provide more than sufficient tax base to repay the public costs which they generate in adjacent States. Louisiana has gained fiscally from OCS development.

- There are two potential problems:

  ° Rapid exploration and development may cause sudden needs for investment in expanded public facilities before a significant tax base is in place.

° In rare circumstances, development may fail after public investments are made (the boom-and-bust case). In such cases, the tax base to pay for the investment may never be present.

- The existing OCS impact programs which provide Federal funds (up to $1.2 billion) in the form of loans, bond guarantees, and grants to coastal States for planning and impact aid are more than sufficient to meet real needs for front-end financing assistance and "boom-and-bust" insurance. Aid is available as needed.

- The onshore mineral leasing receipts sharing arrangement is not a valid precedent for similar sharing of OCS receipts for reasons described in Attachment A, p. A-7.

- Automatic revenue sharing such as that of H.R. 935 is an exceedingly inefficient way to meet needs for impact aid:

  ° Most of the money goes to States with very modest needs because they have already adjusted to past OCS development.

  ° The cost is very high compared to our estimates of need: $4.4 billion in cost compared to less than $500 million in need for assistance.

Options

Alternative approaches to revenue sharing/impact aid are analyzed in tabs A and B. They are:

#1. Status quo. Existing impact program of up to $800 million authorized for loans, loan guarantees, and planning and environmental loss grants. Discretionary formula grants authorized up to $400 million over eight years for certain purposes. Estimated cost over eight years $335 million or less.

#2. H.R. 935. Non-discretionary percentage revenue sharing from offshore receipts at a fixed proportion of 25% for next seven years. End current program. Estimated eight-year cost $4.4 billion.

#3. Fixed-level revenue sharing. Unrestricted grants based upon a fixed dollar amount per unit of net increased employment resulting from outer continental shelf activities. End current program. Estimated eight-year cost $400 million.

#4. Need-related percentage revenue sharing. Non-discretionary grants based on 6.5% of outer continental shelf receipts for the next seven years. End current program. Estimated eight-year cost $1.1 billion.

SUMMARY COMPARISON OF OPTIONS FOR OUTER CONTINENTAL SHELF IMPACT ASSISTANCE

Criteria for comparison	Option #1 Status quo - Aid program designed to fit need	Option #2 H.R. 935 - Percentage revenue sharing at 25% rate	Option #3 Revenue sharing of a fixed $400M dollar amount	Option #4 Percentage revenue sharing at 6.5% rate
1. Should encourage State and local governments to put public costs generated by offshore development upon that development	Loans and guarantees encourage taxation of the development to recover its public costs. Limited grants to cover unavoidable environmental costs.	Massive grants encourage subsidy of the development.	Grants encourage subsidy of the development to the extent of its public capital costs.	Grants encourage subsidy of the development to the extent of its public capital costs.
2. Should give assistance where needed	Aid available in States where needed. Targeted to needy local jurisdictions.	Aid available in States where needed. No assurance aid would go to needy local jurisdictions.	Available in States where needed except insufficient in Alaska if "worst case" estimate occurs. No assurance aid would go to needy local jurisdictions.	Available in States where needed. No assurance that needy local jurisdictions would receive it.
3. Should not give assistance where not needed	AId limited to need.	Very large volumes of grants to all regions are not needed.	Minor volumes of grants to regions other than Alaska are not needed.	Large volumes of grants to regions other than Alaska are not needed.
4. Should make assistance available as needed at the front end	Available as needed.	Available as needed.	Available 1 year after new employment in place.	Lags behind need in Alaska.
5. Should cut assistance off when no longer needed	Cuts off when need ends.	Continues after need ends. High risk of extension beyond 7 years.	Cuts off when need ends.	Continues after need ends. High risk of extension beyond 7 years.
6. Should limit assistance to the amounts needed	Aid limited to need.	$3.9 billion in unneeded grants.	$45 million in unneeded grants.	$640 million in unneeded grants.
7. Should be administratively simple	Fairly complex.	Fairly simple.	Quite simple.	Fairly simple.
8. Eight year budget cost	$335 million (less if need is less).	$4,370 million.	$400 million (less if need is less).	$1,130 million

THE WHITE HOUSE

WASHINGTON

May 23, 1977

MEMORANDUM TO: THE PRESIDENT

FROM: Jack Watson

SUBJECT: BERT LANCE'S MEMORANDUM ON ASSISTANCE FOR OUTER CONTINENTAL SHELF IMPACTS

In the attached memorandum, Bert Lance recommends that you maintain the status quo with respect to OCS development assistance to states and localities, notwithstanding an anticipated effort in the House to increase revenue sharing/impact aid. Secondarily, Bert suggests that if a revenue sharing approach is desired, we move to a "fixed level revenue sharing" (option three in his paper).

I solicited comments on Bert's memorandum from the Departments of Commerce, Interior and EPA. All three responded in favor of Bert's primary recommendation (that we continue the current program of loans, guarantees of grants and oppose major changes to the existing impact program). There is, however, disagreement on Bert's secondary recommendation from Juanita Kreps and Cecil Andrus. Juanita and Cecil both prefer a variation on option four (need-related percentage revenue sharing) rather than option three. Their comments may be summarized as follows:

Juanita Kreps

The fixed level or percentage revenue sharing options, as proposed, would:

- create equity problems since it is likely that only two or three states would receive between 50% and 75% of the funds;
- undermine the Commerce Department's coastal zone management efforts because eligibility to receive Coastal Energy Impact Program funds is currently tied to a state's progress in developing its Coastal Zone Management Program;

- result in unnecessary federal outlays.

If we must go to a form of revenue sharing, Juanita recommends a "need-related" 5% to 6% revenue sharing channel through the "Coastal Energy Impact Program." This variation on option four would, according to Juanita, assure a more equitable distribution of funds and support the legislative objectives of the Coastal Zone Management Program. In the final analysis, Juanita strongly opts in favor of Bert's first recommendation that we take a unified position in favor of the status quo and against revenue sharing in any form.

Cecil Andrus

Cece also firmly supports option one and thinks that Bert's secondary recommendation (option three) would place an inequitable cost on general taxpayers who benefit from OCS losing revenues. If we must go with some form of revenue sharing, Cece agrees with Juanita that a variation of option four would be preferable to option three. He suggests that the OCS amendments could direct that a fixed percentage, perhaps 3%, be used for the automatic grants to states made by the Coastal States Energy Impact Program. In effect, Cece's position is the same as Juanita's; he simply suggests a lower percentage for the grants.

Doug Costle commented that a financial assistance program to the states which does not approximate need will encourage the excessive development with concomitant adverse environmental impacts. He also strongly favors option one.

THE WHITE HOUSE

WASHINGTON

May 23, 1977

MEMORANDUM FOR THE PRESIDENT

FROM STU EIZENSTAT
KITTY SCHIRMER

SUBJECT BERT LANCE MEMO 5/17 Re: ASSISTANCE FOR OUTER CONTINENTAL SHELF IMPACTS

I concur with Bert Lance's recommendation that we oppose changing the current Outer Continental Shelf impact assistance program to some form of direct revenue sharing for coastal states. Such a program could be enormously costly, and would not be directly related to the need for federal assistance to offset energy-related OCS development.

You should know, however, that you will come in for substantial criticism from some of the coastal states, particularly Louisiana and Texas, if the Administration fails to support OCS revenue sharing. Representatives from these states feel that your campaign statement in New Orleans constituted a pledge to seek revenue sharing legislation. While this is arguable (you are quoted as favoring "a fair allocation of Federal funds to give local and State governments"), the perception of a commitment nevertheless remains in the minds of many, most notably the Attorney General of Louisiana, who have paid calls on us lately.

Should you feel that some form of revenue sharing is necessary, I believe that there is a fifth option not discussed in the Lance memo. (It is discussed in the comments from the Departments of Commerce and Interior and from EPA.) This option would allocate a fixed percentage of OCS revenues (3-6%) for the Coastal Energy Impact Fund which would then be distributed to the states according to the same criteria and the same requirements of demonstrated need as exist in the current program. The cost of this option need not exceed that of the current program.

The main disadvantage of this approach is that it puts us in a weakened negotiating position, it gives a legitimacy to the concept of OCS revenue sharing (which I think is undeserved), and it becomes the base case from which to compromise further. We would be far better off if this were to become the compromise at the end of the process, rather than stating it as a given in the first instance.

THE WHITE HOUSE

WASHINGTON

Hold for Stu's comment

Date: May 17, 1977

MEMORANDUM

FOR ACTION:
Stu Eizenstat
Hamilton Jordan – concur
Frank Moore
Jack Watson – w/attached
James Schlesinger

FOR INFORMATION: The Vice President

FROM: Rick Hutcheson, Staff Secretary

SUBJECT: Bert Lance memo 5/17 re Assistance for outer continental shelf impacts.

YOUR RESPONSE MUST BE DELIVERED TO THE STAFF SECRETARY BY:

TIME: ~~6:00 P.M.~~ Noon

DAY: ~~Thursday~~ SAT

DATE: May 19, 1977

ACTION REQUESTED:

__X__ Your comments

Other:

STAFF RESPONSE:

____ I concur. ____ No comment.

Please note other comments below:

PLEASE ATTACH THIS COPY TO MATERIAL SUBMITTED.

If you have any questions or if you anticipate a delay in submitting the required material, please telephone the Staff Secretary immediately. (Telephone, 7052)

THE WHITE HOUSE
WASHINGTON

ACTION	FYI	
	/	MONDALE
		COSTANZA
/		EIZENSTAT
/		JORDAN
		LIPSHUTZ
/		MOORE
		POWELL
/		WATSON

	ENROLLED BILL
	AGENCY REPORT
	CAB DECISION
	EXECUTIVE ORDER

Comments due to Carp/Huron within 48 hours; due to Staff Secretary next day

	FOR STAFFING
	FOR INFORMATION
	FROM PRESIDENT'S OUTBOX
	LOG IN/TO PRESIDENT TODAY
	IMMEDIATE TURNAROUND

		ARAGON
		BOURNE
		BRZEZINSKI
		BUTLER
		CARP
		H. CARTER
		CLOUGH
		FALLOWS
		FIRST LADY
		GAMMILL
		HARDEN
		HOYT
		HUTCHESON
		JAGODA
		KING

		KRAFT
		LANCE
		LINDER
		MITCHELL
		POSTON
		PRESS
		B. RAINWATER
/		SCHLESINGER
		SCHNEIDERS
		SCHULTZE
		SIEGEL
		SMITH
	/	STRAUSS
		WELLS
		VOORDE

Date: May 17, 1977 15

MEMORANDUM

FOR ACTION:
Stu Eizenstat
Hamilton Jordan
Frank Moore
Jack Watson
James Schlesinger

FOR INFORMATION: The Vice President

FROM: Rick Hutcheson, Staff Secretary

SUBJECT: Bert Lance memo 5/17 re Assistance for outer continental shelf impacts.

YOUR RESPONSE MUST BE DELIVERED TO THE STAFF SECRETARY BY:
TIME: 6:00 P.M.
DAY: Thursday
DATE: May 19, 1977

ACTION REQUESTED:
_x_ Your comments
Other:

STAFF RESPONSE:
____ I concur. ____ No comment.
Please note other comments below:

Concur with Lance. Rev. Share provisions that Louisiana would prefer would add 4 bill to budget + other problems. Campaign commitment reasonably unspecific. Might generate short term negative fall-out in La, but it's the right thing to do

Siegel

PLEASE ATTACH THIS COPY TO MATERIAL SUBMITTED.

If you have any questions or if you anticipate a delay in submitting the required material, please telephone the Staff Secretary immediately. (Telephone, 7052)

A

Comparison of these options is summarized in the attached table.

Recommendation

We recommend option #1 oppose major change to existing impact program as the best way to efficiently meet genuine needs for assistance. If a revenue sharing approach is desired which has less Federal administrative discretion than the existing loan, guarantee, and grant program, we would recommend option #3 fixed-level revenue sharing.

Decision

Option #1. Status quo ☑
Continue current program of loans, guarantees, and grants

FC

Option #2. H.R. 935 ☐
Non-discretionary revenue sharing at 25% level through 1984

Option #3. Fixed-total revenue sharing ☐
Revenue sharing at $400 million total authorization through 1984

Option #4. Need-related percentage revenue sharing. Share at 6.5% level through 1984 ☐

Option #5. Other (specify option you wish staffed) ☐

Attachments
Tab A - Issue Paper on Impact Assistance for OCS Impacts
B - Analysis of Options for OCS Impact Assistance
C - Federal Energy Development and State and Local Taxation
D - Estimates of OCS Employment Impacts and Costs
E - Automatic Revenue Sharing and Louisiana's Situation

April 15, 1977

TAB A

Issue Paper on Impact Assistance for OCS Impacts

Issue. What form of assistance for outer continental shelf impacts should the Administration support?

Background

A variety of efforts were made in the 94th Congress to provide for Federal assistance to State and local governments for impacts resulting from outer continental shelf oil and gas development activities.

Giving the coastal States a percentage share of Federal offshore revenues was one of several approaches. The main argument for taking that kind of approach was the existing receipts sharing arrangement in the Mineral Leasing Act of 1920. That Act gives the public lands States a percentage share of receipts from leasing under it. (The share at that time was 37-1/2%; it has since been increased to 50%.) It was argued by some that the coastal States should have a similar arrangement vis a vis offshore receipts.

The Congress passed, and President Ford signed, amendments to the Coastal Zone Management Act which:

- authorized an $800 million coastal energy impact revolving fund to:
    - ° make or guarantee loans to provide new or improved public facilities or services needed because of offshore energy activities.
    - ° provide up to $50 million for:
        - °° 80% grants for study and planning for the impacts of new or expanded energy activities.
        - °° grants to prevent, reduce, or ameliorate any unavoidable loss in valuable coastal environmental or recreational resources resulting from a coastal energy activity. (These grants from the energy impact fund are to be available only if the formula grants described below are not sufficient.)
- funds in the $800M impact fund (whether grants or loans) are apportioned or allotted to the several coastal States by a formula which takes into account new population due to the offshore activity, and regional per capita costs of public facilities and services.

- allow for forgiveness of the State or local obligation to the Federal Government under the loans or guarantees if the tax revenues resulting from the coastal energy activity are not sufficient to repay the loans or bonds.

- authorized up to $50 million per year for eight years in formula grants to be used for:

    ° retirement of State and local bonds guaranteed under the impact fund.

    ° the prevention, reduction, or amelioration of any unavoidable loss in valuable coastal environmental or recreational resources, if such loss results from coastal energy activities.

    ° the study of, planning for, and provision of new or improved public facilities or services needed because of coastal energy activities, <u>when sufficient assistance is not available from the impact revolving fund</u>.

- appropriations for formula grants are to be divided among the States by a formula based on each State's share of the

    ° new acreage leased
    ° production in Federal waters
    ° first landings of production from Federal waters
    ° new employment in outer continental shelf energy activities

- moneys from these formula grants are not made available to the States until the State has shown that it will expend the grant moneys on eligible projects in accordance with the provisions of the Act. Hence, while the grants are "formula" grants they are not "automatic" grants.

The provisions of these amendments were designed to provide front-end assistance in meeting real needs for new public infrastructure and public services caused by offshore energy development activities. They were not intended to provide long term subsidies to the energy activities by giving grants so that the State and local governments would not have to tax the energy activities. They also were not intended to give coastal States an arbitrary windfall from OCS receipts without any relation to needs for assistance. The intent was to provide for genuine needs resulting from Federal offshore activities without subsidizing coastal States or offshore activities at the expense of all of the nation's taxpayers.

Proposals in the current Congress (such as H.R. 935) would amend the Coastal Zone Management Act to:

- terminate the loan assistance program at the end of fiscal year 1977.

- increase the formula grants authorization to a sum
- equal to 25% of OCS receipts, for the seven fiscal years ending with fiscal year 1984.

- allow formula grant funds to be used without respect to the availability of financing under other subsections.

- change the formula grants to automatic formula grants which come to the State whether a showing of need resulting from OCS activities is made or not made.

We expect efforts to be made to add such provisions as amendments to the outer continental shelf lands bill.

Options

#1. Status quo. Oppose major change to existing impact program.

#2. H.R. 935. Modify formula grant program to provide percentage revenue sharing from offshore receipts at a fixed proportion of 25% for next seven years. Allocate to States by their shares of acreage leased, production, production landed, and new employment. Terminate loan program.

#3. Fixed-level revenue sharing. Modify the existing formula grant program so that unrestricted grants are made. Base grants upon a fixed dollar amount per unit of net increased employment in each coastal State resulting from outer continental shelf activities. Continue the current authorization total for formula grants at up to $400 million through fiscal year 1984. Define "increased employment" to mean net increases in a State's employment caused by outer continental shelf activities. Terminate the loan and guarantee program.

#4. Need-related percentage revenue sharing. Modify the existing formula grant program so that the grants are automatic grants based on 6.5% of outer continental shelf receipts for the next seven years. Allocate to the States by their shares of acreage leased, production, production landed, and increased employment. Define "increased employment" to mean net increases in a State's employment caused by outer continental shelf activities. Terminate the loan and guarantee program.

Analysis

A. What are the problems to be solved?

- Meeting public costs caused by OCS development.
- Avoiding adverse environmental effects.

1. The problem of public costs

a. Nature of problem

- Public services are needed before development begins to generate sufficient tax revenues.

- Development must generate enough revenues over its lifetime to pay for facilities and services.

- The risk that development won't occur as expected or will fail after facility investments are made has to be dealt with.

b. Normal methods of dealing with problems

- Borrowing for capital costs with repayment from taxes.

- Taxes for operating costs.

- State or local jurisdictions now frequently require developer pre-payment of taxes on large projects.

- State and local jurisdictions sometimes require developer to purchase or guarantee bonds to finance public facilities.

- These methods:

  ° maximize State/local determination of result

  ° internalize costs - developer pays costs through taxation

c. Special problems in OCS development

- Timing - even though revenues to pay costs will be available through time, enough front-end credit may not be available because of uncertainties about development.

- Some State/local tax sources aren't available in the case of outer continental shelf activities
    - ° no tax on facilities located offshore in Federal waters
    - ° no severance tax on production from Federal waters
- However, other factors probably more than make up for the absence of these tax sources. OCS activities probably pay more State and local taxes per employee than manufacturing, wholesale trade, retail trade, selected services or construction (see tab C).
    - ° Capital investment per employee is very high, with a significant portion located onshore and therefore locally taxable.
    - ° Employees are highly paid.
    - ° Vast majority of employees, and practically all of economic transactions are within State and local tax jurisdictions.
    - ° States can tax oil from Federal waters which is stored onshore.
- The risk of development failure after public facilities are financed by bonds is present.
- Therefore, to the extent impact assistance is needed, the need is for
    - ° front-end money, and
    - ° to insure against development failure.

2. Problem of environmental values

    a. Avoiding uncontrolled and blighting growth

- Existing regulations require companies to provide development plans and socioeconomic impact information to affected non-Federal governments.
- Coastal Zone Management Act requires a State planning process for locating coastal zone energy facilities and managing their impacts.

- Coastal Zone Management Act authorizes adequate and timely Federal assistance for planning and for provision of public assistance.

b. Avoid direct environmental impacts of development

- Full NEPA procedures and decision processes will be used which explicitly make trade-offs between environmental preservation and resource development.

- Stringent regulation of operations to comply with high safety standards and all environmental standards and laws will be enforced.

- Strong oil spill liability legislation is being sought.

- Coastal Zone Management Act provides authority for assistance to correct "unavoidable" environmental losses (losses which can't be assessed against any identifiable person).

B. What is the size of the need for assistance?

During the development of the existing coastal impact assistance program, OMB prepared a "worst case" estimate of public facilities needs resulting from OCS development. Tab D describes the analysis and its assumptions. The assumptions used were deliberately selected to give a result at the high end of the possible range of public costs. That analysis estimated a possible, but unlikely, cost of $950M for public facilities.

Revision of that analysis to reflect the now likely schedule of Federal leasing on the outer continental shelf gives the results in Table I. Again, these figures are "worst case" figures. Actual costs are likely to be substantially less.

Table I
Public Facilities Need Caused by OCS Development

Coastal Area	Facilities Costs ($ Millions)
Gulf of Mexico	50
Atlantic	110
Pacific	40
Alaska	290
Total	490

C. Merit of the Mineral Leasing Act receipts sharing analogy

It is argued that since public lands States get a share of Federal onshore mineral leasing receipts (formerly 37-1/2%, now 50%), it is unfair not to give coastal States a share of outer continental shelf leasing receipts.

Such an argument ignores the following important considerations:

- Onshore Federal lands are within the jurisdictional boundaries of the public lands States and in most cases make up a large proportion of the total land area of those States. The outer continental shelf is entirely outside the jurisdictional and geographic boundaries of the States.

- In 1920, when the onshore receipts sharing provisions were enacted, the western States involved were thinly populated with little economic diversity to serve as a tax base. Therefore, Federal financial assistance for roads and education from this source was considered an appropriate way to encourage economic development.

- None of these considerations hold for the Federal offshore lands.

Our conclusion is that the special revenue sharing of onshore mineral leasing receipts is probably not justified under modern conditions. However, even if such sharing were justified onshore, the offshore situation is sufficiently different that the onshore analogy is not valid.

D. Criteria for an outer continental shelf impact assistance program

- Should encourage the State and local governments to put the environmental and public costs generated by development upon the development and its associated economic activity.

- Should make assistance available only where needed because impacts are occurring or are about to do so.

- Should make assistance available at the time of need.

    ° should be available at the front-end
    ° should cut off after it is no longer needed

- Should limit assistance to the amounts needed

    ° should not stimulate overbuilding or gold-plating of public facilities

° should not replace State and local tax effort

- Should be administratively simple.

Tab B analyzes each of the options in turn using these criteria. The summary comparison table summarizes these comparisons.

Conclusions and Recommendations

The existing coastal impact assistance program provides a combination of mechanisms to meet specific types of need which may arise from outer continental shelf activities:

- loans and guarantees to aid in meeting front-end financing problems.

- grants for planning, for unavoidable environmental losses, for retiring loans and guarantees that would otherwise be in default, and for meeting front-end financing problems if loan and guarantee aid is not sufficient.

Although this program is administratively somewhat complex, it is designed to efficiently target aid to situations of need with a minimum of waste.

Percentage revenue sharing options (#2 and #4) necessarily involve substantial waste in the sense of giving grants where need generated by outer continental shelf activities doesn't exist. Proposing such an approach would also run serious risks of:

- the Congress raising the percentage share enacted to levels which would have severe budget impacts.

- the Congress extending the sharing beyond the proposed initial seven year authorization (or making it permanent) without regard to the termination of the need for assistance.

Fixed-total revenue sharing by means of unrestricted grants based on a reasonable proxy for need (option #3) would be substantially more cost effective in meeting genuine need for assistance than either percentage revenue sharing option. It would be substantially less cost effective than the existing impact assistance program.

For these reasons we recommend option #1, continue the status quo with the existing program.

If a program of unrestricted grants is desired, our recommendation would be option #3, fixed-total revenue sharing with allocation based on net increased employment.

Decision

Option #1. Status quo. /___/
Continue current program

Option #2. H.R. 935. /___/
Percentage revenue sharing at 25% level through 1984

Option #3. Fixed-total revenue sharing /___/
at $400 million total authorization through 1984

Option #4. Need-related percentage /___/
revenue sharing share at 6.5% level through 1984

Other (specify) /___/

SUMMARY COMPARISON OF OPTIONS FOR OUTER CONTINENTAL SHELF IMPACT ASSISTANCE

Criteria for comparison	Option #1 Status quo - Aid program designed to fit need	Option #2 H.R. 935 - Percentage revenue sharing at 25% rate	Option #3 Revenue sharing of a fixed $400M dollar amount	Option #4 Percentage revenue sharing at 6.5% rate
1. Should encourage State and local governments to put public costs generated by offshore development upon that development	Loans and guarantees encourage taxation of the development to recover its public costs. Limited grants to cover unavoidable environmental costs.	Massive grants encourage subsidy of the development.	Grants encourage subsidy of the development to the extent of its public capital costs.	Grants encourage subsidy of the development to the extent of its public capital costs.
2. Should give assistance where needed	Aid available in States where needed. Targeted to needy local jurisdictions.	Aid available in States where needed. No assurance aid would go to needy local jurisdictions.	Available in States where needed except insufficient in Alaska if "worst case" estimate occurs. No assurance aid would go to needy local jurisdictions.	Available in States where needed. No assurance that needy local jurisdictions would receive it.
3. Should not give assistance where not needed	Aid limited to need.	Very large volumes of grants to all regions are not needed.	Minor volumes of grants to regions other than Alaska are not needed.	Large volumes of grants to regions other than Alaska are not needed.
4. Should make assistance available as needed at the front end	Available as needed.	Available as needed.	Available 1 year after new employment in place.	Lags behind need in Alaska.
5. Should cut assistance off when no longer needed	Cuts off when need ends.	Continues after need ends. High risk of extension beyond 7 years.	Cuts off when need ends.	Continues after need ends. High risk of extension beyond 7 years.
6. Should limit assistance to the amounts needed	Aid limited to need.	$3.9 billion in unneeded grants.	$45 million in unneeded grants.	$640 million in unneeded grants.
7. Should be administratively simple	Fairly complex.	Fairly simple.	Quite simple.	Fairly simple.
8. Eight year budget cost	$335 million (less if need is less).	$4,370 million.	$400 million (less if need is less).	$1,130 million

B

April 15, 1977

TAB B

Analysis of Options for OCS Impact Assistance

Option #1 - Status quo.

Description

Oppose major change in the existing impact program. Revolving fund would remain authorized at $800 million for loans and guarantees for public facilities needed because of Federal offshore development. (Up to $50 million of the fund is usable for planning grants and environmental loss mitigation grants.) Formula grants would remain authorized at up to $50 million a year for eight years for:

- retiring loans or guaranteed bonds which would otherwise be in default.
- providing public facilities for which sufficient loan funds are not available.
- correcting environmental losses not chargable to identifiable persons.

Although these grants are formula grants in the sense that the maximum available to any State is determined by formula, they do not go automatically to the State, but require a showing that the funds will be spent for the purposes of and otherwise in accordance with the Coastal Zone Management Act.

Distribution and size of assistance ($ millions over 8 years)

Atlantic Coast	Gulf of Mexico	Pacific Coast	Alaska	Total
110	50	40	290	490

The budget requests $278 million for fiscal years 1977 and 1978. Although the above figures total $490 for a "worst case" estimate of need, the total costs could be substantially less. Budget outlays (net of repayments) in the period for a "worst case" estimate would total $335 million (or less if guarantees are much used).

Would the option encourage charging energy development for its public costs?

Since the assistance mechanism is predominantly in loan form, State and local governments would have strong incentives to tax the facilities and the activities associated with the offshore development. Tab A suggests that offshore development and its associated activities can be taxed sufficiently

by State and local governments to pay the costs of providing public facilities and services needed because of the development. Since the public costs of other kinds of development are financed in this manner, failure to tax offshore development related activities would be an undesirable subsidy to that industry.

Would the option make assistance available where and only where needed?

Eligibility for assistance is based on increases in population due to Federal offshore activities. In addition, assistance is not likely to be requested except as needed, since it is in the form of loans at Federal borrowing rates which must be repaid unless the development does not provide sufficient tax revenues to fund repayment. Funds must be spent on certain kinds of eligible projects directly related to the impacts from Federal offshore activities.

Would the option make assistance available at the proper time?

Front-end funds are provided only as need arises. The revolving fund cannot make new obligations after fiscal year 1986. Formula grants are authorized only through fiscal year 1984. Even if these authorities are extended, their exercise is tied to the demonstration of need and will therefore terminate with the termination of that need.

Would the option limit assistance to the amounts needed?

Loan and guarantee eligibility depends upon a formula designed to measure likely need. Jurisdictions who don't need financing assistance even though they may qualify under the formula are encouraged to continue to use their normal means of financing by the fact that the assistance is in the form of loans at Federal rates. Since the assistance will not normally be a grant or a heavily subsidized loan, incentives to use the assistance to "gold plate" public facilities or to reduce State and local taxes at the expense of the national taxpayers are not present.

Would the option be administratively simple?

The existing program is not administratively simple. State and local observers have said that they find it complex. Whether this is so, or whether the comment reflects their preference for being given the money in simpler grants which do not try to limit assistance to situations of need is unknown.

The program depends upon a set of fairly complicated estimates and determinations by the Federal administrators. These

complexities are the price of limiting the assistance to situations of need.

Option #2 - H.R. 935.

Description

Modify formula grants to provide revenue sharing from outer continental shelf receipts at a fixed proportion of 25% for next seven years. Terminate loan program. Allocate revenue sharing funds to States by their shares of new acreage leased, production, production landed, and new offshore employment.

Distribution and size of assistance ($ millions over 8 years)

Atlantic Coast	Gulf of Mexico	Pacific Coast	Alaska	Total
900	1,590	760	1,120	4,370

Would the option encourage charging energy development for its public costs?

The revenue shared is about nine times the need for public facilities assistance which is estimated to result from the "worst case" estimate of need. Therefore, non-Federal governments would have little or no incentive to tax the energy developments generating the social costs. The option would encourage an implicit subsidy of the energy developments by allowing them to escape payment of all of their social costs.

Would the option make assistance available where and only where needed?

Assistance is made available to jurisdictions whether needed or not. One-third of the revenue shared would be distributed according to each State's share of new outer continental shelf leases issued. Need is very poorly related to the level of leasing. Whether a given amount of leasing will produce much or little need for new public facilities depends upon whether activities following the leasing utilize employees already located within the State or employees brought into the State for the first time.

A second third of the revenue sharing would be distributed according to each State's share of production from Federal waters, and first landings of oil and gas from Federal waters. Neither of these factors have any necessary relationship to the need for new public facilities.

The final third of the revenue sharing would be related to new employment resulting from outer continental shelf activities.

Normally this factor would be reasonably well related to need, at least compared to the factors described above. However, the language is written to include changes of jobs by individuals already located within the State. New employment would be reasonably related to need for new public facilities, if it excluded such job changes and included only net increases in the State's employment resulting from outer continental shelf activities.

For these reasons, the provision of assistance by this revenue sharing mechanism would not match the distribution of aid to the distribution of need. Table 2 compares the distribution of aid to the distribution of a "worst case" estimate of need.

Table 2
Distribution of need and assistance

Coast	% of total need	% of total grants
Alaska	58.5	25.6
Atlantic	22.8	20.6
Pacific	8.7	17.4
Gulf	10.0	36.4

Since the grants would go to the States for use as they see fit, there is no assurance that aid would go to local governments needing it.

Would the option make assistance available at the proper time?

Assistance would be available at the time it is needed. Within the seven year period of authorization it would also frequently be available when not needed. Furthermore, the scale of revenues shared is much greater--nine times or more--than the need for assistance due to offshore activities. The States would come to depend upon it for financing of expenditures unrelated to Federal offshore activities. Therefore, the likelihood that the revenue sharing would be extended or made permanent at the end of the seven year authorization is very high. In such an eventuality, the assistance would continue long after all need for assistance had disappeared.

Would the option limit the amount of assistance to the amounts needed?

A "worst case" estimate of the size of the need is $490 million. The option would provide $4,370 million during the initially authorized seven year period and more if it were later extended.

Table 3
Comparison of need and grants

Coast	Total need (Millions of dollars)	Total grants (Millions of dollars)	Unneeded grants (Millions of dollars)
Alaska	290	1,120	890
Atlantic	110	900	790
Pacific	40	760	720
Gulf	50	1,590	1,540
Total	490	4,370	3,880

Would the option be administratively simple?

Administration would be relatively simple. Federal employees would be required to calculate and verify for each coastal State the annual levels of the factors upon which the distribution of funds would depend--new leasing, production, first landings of production, and new employees.

Option 3 - Fixed total revenue sharing.

Description

Modify the existing formula grant program so that the $400 million in authorized formula grants are automatic rather than dependent upon a prior State showing that funds will be used to meet needs caused by Federal offshore activities. Modify the distribution formula so that funds are distributed upon the basis of a fixed dollar amount per unit of net increase in State employment caused by Federal offshore activities. Repeal the existing loan and guarantee authority.

Distribution and size of assistance ($ millions over 8 years)

Atlantic Coast	Gulf of Mexico	Pacific Coast	Alaska	Total
140	60	45	155	400

Would the option encourage charging energy development for its public costs?

Since the assistance is in the form of grants, the program provides no incentive to tax the energy development to recover costs funded by such grants. However, the size of the total grant program in this option is sufficiently small that State and local governments will have to depend on taxes to finance the long term costs of public services needed because of Federal offshore development. If the "worst case" estimate

of need for assistance were to occur, Alaska would also have to depend upon taxation to fund about 45% of the public facilities needed. This is so because a fixed dollar grant per unit of net new employment doesn't take into account the higher costs of constructing public facilities in Alaska. The formula for making automatic grants could be modified to take this into account at the cost of some increased complexity.

Would the option make assistance available only where needed?

Since the grants would go automatically to the States for use as they see fit, there is no assurance that the assistance would go to those local jurisdictions which have a need for assistance due to Federal offshore activities.

The assistance is not distributed among the regions in the same way as is the estimate of "worst case" need. However, the discrepancies between the distribution of need and of assistance are less severe than those under options #2 and #4.

Table 4
Distribution of need and assistance

Coast	% of total need	% of total grants
Alaska	58.5	38.8
Atlantic	22.8	35.0
Pacific	8.7	11.2
Gulf	10.0	15.0

Would the option make assistance available at the proper times?

Since the assistance is based upon net new employment in the previous fiscal year, it is available with a time lag of one year after the new employees are in place. If construction of public facilities to serve these new employees cannot be started until the grants are in hand and takes, for example, an average of two years to complete, the public facilities will not be in place until three years after the new employment which they are to serve is in place.

Since the formula basis for the grants is net new employment caused by Federal offshore energy activities, no grants would be made without justification by need. The risk that the Congress would extend the program beyond the initial seven year period of authorization is, therefore, no greater than under the current program, option #1.

Would the option limit the amount of assistance to the amounts needed?

Because the formula for distribution is a single, imperfect proxy for need, there would be a substantial volume of unneeded grants. Table 5 compares the total grants with the "worst case" estimate of need.

Table 5
Comparison of need and grants

Coast	Total need (Millions of dollars)	Total grants (Millions of dollars)	Unneeded grants (Millions of dollars)	
Alaska	290	155	-135	(short fall)
Atlantic	110	140	30	
Pacific	40	45	5	
Gulf	50	60	10	
Total	490	400	45	(ignoring short fall)

If the grant total were increased (by increasing the dollar amount per unit of net new employment) to assure that no region would get less than its "worst case" need estimate, the unneeded grants would be

Table 6
Comparison of need and grants - full funding of "worst case" need

Coast	Total need (Millions of dollars)	Total grants (Millions of dollars)	Unneeded grants (Millions of dollars)
Alaska	290	290	--
Atlantic	110	260	150
Pacific	40	85	45
Gulf	50	110	60
Total	490	745	255

Alternatively, the formula could be modified to take into account that costs in Alaska are higher by giving Alaska 50% more in grants per unit of net new employment:

Table 7
Comparison of need and grants with cost variations considered

Coast	Total need (Millions of dollars)	Total grants (Millions of dollars)	Unneeded grants (Millions of dollars)	
Alaska	290	230	-60	(short fall)
Atlantic	110	140	30	
Pacific	40	45	5	
Gulf	50	60	10	
Total	490	475	45	(ignoring short fall)

Would the option be administratively simple?

The option is simple and straightforward administratively. Federal employees would be required to estimate the net new employment from Federal offshore activities upon which the grants would be based.

Option #4 - Need-related percentage revenue sharing.

Description

Modify the existing formula grant program so that the grants are automatic grants based on 6.5% of outer continental shelf receipts for the next seven years. Allocate to the States by their shares of acreage leased, production, production landed, and new employment. Redefine new employment to mean net increases in the State's employment caused by Federal offshore activities. Terminate the loan and guarantee program.

Distribution and size of assistance ($ millions over 8 years)

Atlantic Coast	Gulf of Mexico	Pacific Coast	Alaska	Total
230	410	200	290	1,130

Would the option encourage charging energy development for its public costs?

Since assistance would be in grant form, the program provides no incentive to charge the development for its costs.

Would the option make assistance available where and only where needed?

All States needing assistance would receive it. However, very substantial grants would be made where no need for assistance exists.

Within States needing assistance, there is no assurance that the Federal aid will go to those jurisdictions having public facilities needs caused by Federal offshore development.

The grants would not be distributed in the same manner as the estimated need.

Table 8
Distribution of need and assistance with 6.5% revenue sharing option

Coast	% of total need	% of total grants
Alaska	58.5	25.6
Atlantic	22.8	20.6
Pacific	8.7	17.4
Gulf	10.0	36.4

Would the option make assistance available at the proper time?

The level of 6.5% was chosen because that level is the minimum that would give each coastal region at least the amount estimated to be its likely "worst case" need. When the percentage sharing rate is 6.5%, Alaska receives an amount equal to its worst case need while all other coastal regions receive more than their respective needs.

However, reducing the level to 6.5% means that Alaska's cumulative grants would not equal or exceed its cumulative need in all years. For a period of time its cumulative need would run ahead of its cumulative grants because the time shape of the need for assistance is different than the time shape of the automatic grants.

Table 9
Front-end financing problem with 6.5% revenue sharing
Alaska

	---------Millions of dollars----------		
Year	Cumulative need	Cumulative grants	Cumulative grants short fall
1978	18.3	11.8	6.5
1979	48.8	25.9	22.9
1980	134.0	73.6	60.4
1981	251.0	109.5	141.5
1982	288.3	167.6	120.7
1983	288.3	225.7	62.6
1984	288.3	290.7	2.4 (excess)

This mismatching in timing could be eliminated by increasing the percentage to 15%. However, doing so would raise the total volume of grants from $1.13 billion at 6.5% to $2.6 billion at 15%. The unneeded grants would increase from $640 million at 6.5% sharing to $2.1 billion at 15% sharing.

Sharing at the 6.5% rate would still make assistance available in some regions after it is no longer needed. Furthermore, the risk that States using the funds for purposes unrelated to Federal offshore impacts would become dependent on continuation of the revenue sharing beyond the seven year authorization is very high. Extension of the program beyond the seven year authorization or making it permanent would probably result.

Would the option limit assistance to the amounts needed?

Table 10 compares the "worst case" estimate of need with the grants under this option. Table 11 shows the same comparison, if the revenue sharing percentage were raised to 15% to avoid time lags in assistance to Alaska.

Table 10
Comparison of need and assistance levels
for 6.5% revenue sharing

(Millions of dollars)

Coast	Total need	Total grants	Unneeded grants
Alaska	290	290	--
Atlantic	110	230	120
Pacific	40	200	160
Gulf	50	410	360
Total	490	1,130	640

Table 11
Comparison of need and assistance levels
for 15% revenue sharing

(Millions of dollars)

Coast	Total need	Total grants	Unneeded grants
Alaska	290	670	380
Atlantic	110	540	430
Pacific	40	460	420
Gulf	50	960	910
Total	490	2,630	2,140

Would the option be administratively simple?

Since the grants are automatic formula grants, this option is administratively relatively simple. Estimates or determinations would have to be made each year for each coastal State of the factors determining grant distribution.

D

April 15, 1977

TAB C

Federal Energy Development and State and Local Taxation

Summary

Concern has been expressed that Federal energy resources development will impose long term fiscal costs upon State and local governments. With respect to OCS development, it has been argued that such costs are necessarily caused by the fact that facilities located on the leases are beyond the State taxing jurisdictions.

In reply to such concerns the following points should be made:

- Fiscal costs generated by Federal energy resources development are almost entirely a function of increased employment and related population.

- Both OCS development and Federal coal development are so highly capital intensive compared to the economies to which they will be added that as tax bases they will be superior to the existing economic structures.

- Since both OCS employees and coal industry employees are more highly paid than the employees in most of the industries of the existing economies, as an income tax base they will be superior to the employees in the existing economies.

Therefore, OCS and Federal coal development will pay in State and local taxes more relative to the State and local costs which they cause than any major industrial sector.

Capital Intensity

Table 1 shows fixed assets (exclusive of land) per employee for each of the industrial sectors, as shown in the various economic censuses for 1972.

For offshore oil and gas, mineral properties are also excluded since such properties are not subject to State tax jurisdictions. The remaining fixed capital - buildings, other structures, and equipment - may or may not be subject to State tax jurisdictions depending on whether it is located onshore or offshore.

The fixed assets per employee figure for "mining, crude petroleum, largest 100 companies" is probably too small since it includes both onshore and offshore establishments. Although asset statistics are not separately available for establishments

Fixed Assets per Employee

1972 Censuses

Manufacturing, all operating establishments 1/	$15,090
Wholesale trade, merchant wholesalers	5,950
Retail trade	5,211
Construction industries	4,748
Selected services	9,732
Manufacturing, petroleum refining 2/	143,708
Mining, crude petroleum and natural gas, largest 100 companies 3/	274,670
Mining, oil and gas field services, offshore	55,462
Mining, Bituminous coal and lignite, West Region 3/	58,784
Mining, Bituminous coal and lignite mining services	17,655

1/ Exclusive of petroleum refining. Period is 1971 instead of 1972.

2/ 1971.

3/ Excludes mineral properties.

operating offshore and establishments operating onshore, both employment and value of shipments and receipts statistics are separately available. Offshore establishments produce twice as much value of shipments and receipts per employee as do onshore establishments of the 100 largest companies. They produce nearly five times as much value per employee as all onshore establishments.

Table 2
Oil and Gas Field Operations

	All Employees (K)	Value of Shipments and Receipts (M$)	Value per Employee ($)
United States, total	116.6	15,690.8	134,569
United States, largest 100 companies	53.6	13,876.9	258,897
Offshore total	5.3	2,794.7	527,302
Onshore total	111.3	12,896.1	115,866
United States, largest 100 companies minus offshore total	48.3	11,082.2	229,445

Fixed assets for the 100 largest companies are used in Table 1 because the vast majority of the offshore establishments are in that group. For the reasons described above the actual offshore fixed assets per employee may be as much as twice the 275 K number of Table 1, or 550 K per employee.

A large proportion of the fixed assets per employee of the "mining, crude petroleum and natural gas, largest 100 companies" category and some smaller proportion of the "mining, oil and gas field services, offshore" category are beyond State taxing jurisdictions. However, given the very high level of fixed assets per employee, only a small proportion in each case has to be subject to State taxing jurisdiction to make it possible to tax these industries as heavily per employee as other industries which are wholly subject to State taxing jurisdiction. Table 3 shows the required percentages in each case.

For example, the table shows that if 2.7 to 5.5% or more of the offshore crude petroleum and natural gas industry fixed assets are located so that they are subject to State tax jurisdictions, that industry's assets will be as subject to such taxation as those of manufacturing.

Table 3

Comparison industry	Percentages taxable: Crude petroleum and natural gas, 100 largest companies 1/	Oil and gas field services, offshore	Both industries offshore oil and gas
Manufacturing	2.7 to 5.5	27.2	6.3-11.1
Wholesale trade, merchant wholesalers	1.1 to 2.2	10.7	2.5- 4.4
Retail trade	0.9 to 1.9	9.4	2.2- 3.8
Construction industries	0.9 to 1.7	8.6	2.0- 3.5
Selected services	1.8 to 3.5	17.5	4.1- 7.1

1/ Higher figure assumes that offshore fixed assets per employee are the same as the industry average. Lower figure assumes that offshore fixed assets per employee are twice the industry average, based on the fact that offshore value of shipments per employee are twice the industry average.

The above discussion treats the oil and gas field operations and oil and gas field services industries separately from the petroleum refining which would be required to process their petroleum output. If petroleum refining employment for processing offshore oil, offshore oil and gas field services employment, and offshore oil and gas field operations employment are compared to the associated petroleum refining fixed assets only, the fixed assets per employee would be $88,410. Since this is nearly six times other manufacturing assets per employee, nine times selected services assets per employee, and between 14 to 19 times the fixed assets per employee for wholesale trade, retail trade, selected services and the construction industries, it is beyond dispute that, if petroleum refining is included, the potential tax base per employee from the OCS activities is much larger than the tax base per employee of any major industrial sector.

The OCS activities will of course also generate secondary employment in construction, retail trade, wholesale trade, and services, but because the tax base per employee is so high in the OCS activities themselves, the tax base for all activities generated by OCS activities taken together will be higher than the tax base for all sectors of the affected State's economy as a whole.

Even if refining were assumed to occur outside of an affected State the very small percentages taxable shown in Table 3 required to make the taxable fixed assets per employee in the offshore oil and gas industries equal to the taxable fixed assets of the other industries make it difficult to believe that the industry won't pay its way at least as well as all other industry.

The fixed assets subject to State tax jurisdiction will include onshore operations bases and offices; onshore gas processing plants; pipeline shore terminals; pipeline, tanker, and barge terminals; pipelines; refinery facilities; and onshore fixed assets of companies providing special support services including wireline, gas lift, logging and perforating, welding, rental tool, fishing tool, well head equipment, machine shop, trucking, supply store, downhole equipment, and diving.

Payroll per employee as a tax base

Table 4 shows the payroll per employee for each of the industry sectors related to Federal energy resources development and the other industrial sectors which will already be present in States affected by Federal energy development.

Table 4

Industry	1972 Payroll/employee
Manufacturing	8,896
Contract construction	9,659
Wholesale trade	9,163
Retail trade	4,939
Selected services	6,300
Offshore oil and gas field operations and services	11,299
Bituminous coal and lignite mining and services	11,240
Petroleum refining	12,372

The average payroll per employee for offshore oil and gas operations and services and the petroleum refining required to process offshore production would be $11,826. This is 33% larger than the manufacturing average payroll, 22% larger than contract construction, 29% larger than wholesale trade, 140% larger than retail trade, and 188% larger than selected services. Clearly, considering income as a tax base, OCS activities are superior to the other industrial sectors comprising most of the affected States' economies.

Conclusion

Both OCS and coal mining activities have more fixed capital assets per employee subject to State and local taxation than any major industrial sector. They also have more payroll per employee available to serve as a payroll or income tax base than any major industrial sector. Therefore, in the long term, OCS development and Federal coal mining will pay their own way with respect to needed State and local public facilities and services better than any major industrial sector.

a

April 15, 1977

TAB D

Estimates of OCS Employment Impacts and Costs

Employment Estimates

Estimates were made of OCS employment impacts using the following assumptions:

Sale	Tracts Sold
Alaska 6-77	85
Alaska 2-78	8
Alaska 1979	120
Alaska 1979	40
Alaska 1979	100
Alaska 1980	80
Alaska 1981	20
Alaska 1981	20
Alaska 1981	40
Pacific Coast 3-78	66
Pacific Coast 1981	60
Gulf of Mexico 7-77	44
Gulf of Mexico 12-77	20
Gulf of Mexico 8-78	10
Gulf of Mexico 1980	40
Gulf of Mexico 1980	40
North Atlantic 7-77	85
North Atlantic 1979	80
Middle Atlantic 6-78	120
Middle Atlantic 1980	80
South Atlantic 7-77	130
South Atlantic 1979	100
South Atlantic 1979	80

It was assumed that these tracts were explored and developed in the following percentages based on Gulf of Mexico historical information:

	Alaska	All other areas
Undrilled and relinquished in primary term	25	25
Undrilled but extended by unitization	25	10
Drilled and productive	25	32.5
Drilled and unproductive	25	32.5

All exploratory drilling done in 1st through 5th years following sale year at rate of 2 wells/tract drilled.

Mobile rig field definition drilling done in 2nd through 6th years after sale at 5 wells per tract with discovery.

1 platform installed per productive tract. Platform drilling done in 4th through 8th years after sale.

The assumed production for OCS areas above 1976 production levels:

Table 1
Oil, millions of barrels annually 1/

Year	Gulf of Mexico	Alaska	Pacific	Atlantic
1977	19	0	9	0
1978	56	0	49	0
1979	94	0	90	0
1980	132	0	130	17
1981	174	32	179	34
1982	216	64	232	51
1983	258	96	283	79
1984	300	128	334	107
1985	343	161	385	135
1986	NP	228	NP	163
1987	NP	295	NP	190
1988	NP	362	NP	NP
1989	NP	429	NP	NP

1/ NP is "not projected"

Table 1A gives the estimated total employment per unit of OCS activity and the number of employees which are both new to the area and are residing locally.

Table 1A

	Total Employment	New Resident Employed
Exploratory rig	113	45
Development rig	65	37
Platform production operations 1/	16	1
Onshore operations base 2/	136	25
Onshore office 2/	42	26
Gas processing plant 3/	21	8
Pipeline shore terminal 2/	17	4
Service support 4/	143	53

1/ Per platform
2/ Per 200 K BOPD
3/ Per 300 K MCFD
4/ Per 10 to 20 rigs served

Table 2 shows the maximum total employment calculated in turn for each OCS area using the above assumptions. Table 3 shows the similar estimates for new residents employed in OCS activities.

Table 2
Total direct employment

Year	Gulf of Mexico	Pacific	Alaska	Atlantic
1977	65	30	--	--
1978	804	168	368	980
1979	1,915	675	980	2,941
1980	3,323	1,424	2,690	5,743
1981	4,355	1,954	5,037	8,156
1982	5,080	2,567	7,140	9,839
1983	4,818	3,387	8,021	9,823
1984	4,281	3,422	8,141	8,332
1985	3,283	3,233	7,036	6,302
1986	2,692	3,089	5,538	4,539
1987	2,245	2,711	4,043	3,501
1988	NP	2,285	3,524	NP
1989	NP	1,987	3,429	NP

Table 3
New residents directly employed

Year	Gulf of Mexico	Pacific	Alaska	Atlantic
1977	19	10	--	--
1978	300	51	146	388
1979	729	240	388	1,165
1980	1,310	560	1,088	2,326
1981	1,683	780	1,992	3,269
1982	1,943	983	2,861	3,878
1983	1,756	1,276	3,127	3,752
1984	1,467	1,264	3,064	2,988
1985	943	1,092	2,466	1,953
1986	666	975	1,729	1,089
1987	423	793	929	554
1988	NP	603	638	NP
1989	NP	441	535	NP

Population Increase Estimates

These estimates of direct employment were then used to calculate population increases in each coastal region resulting from OCS activities by the following steps:

- An assumption was made about how much of the direct employment would come from outside of the region.
- A multiplier was used to convert direct OCS employment into total employment (direct plus secondary) generated by OCS activities.
- A second multiplier was used to convert total employment generated to total population generated.

Table 4 shows these assumptions:

Table 4
Direct employment to new population assumptions

	Assumed % of total direct employment that is new to area	Assumed total employment multiplier	Assumed Population multiplier
Gulf of Mexico	60	1.8	2.5
Pacific	70	1.8	2.5
Alaska	100	2.75	2.5
Atlantic	75	1.8	2.5

Public Facilities Costs

The costs of public facilities needed because of OCS activities were then estimated by multiplying the positive changes in population by $7,250 for Alaska and $5,000 for all other regions. Two dollar series were calculated:

- Using all increases in population up to the peak.
- Using all increases in population up to a level mid-way between the peak population and the permanent increase in population remaining after the exploration and development phases.

The rationale behind use of the latter series is that since the permanent production phase level of generated employment is lower than the temporary peak level during exploration and development, it does not make economic sense to provide facilities to serve all of the peak but temporary population. Furthermore, much of the temporary employment during the peak will not increase population even temporarily by the assumed factors.

Table 5
Cost of public facilities to serve peak population
(Millions of dollars)

Year	Gulf of Mexico	Pacific	Alaska	Atlantic	Total
1977	0.9	0.5	--	--	1.4
1978	10.0	2.2	18.3	16.5	47.0
1979	15.0	8.0	30.5	33.1	86.6
1980	19.0	11.8	85.2	47.3	163.3
1981	14.0	8.3	117.0	40.7	180.0
1982	9.8	9.7	104.8	28.4	152.7
1983	--	12.9	43.9	--	56.8
1984	--	0.5	6.0	--	6.5
	68.7	53.9	405.7	166.0	694.3

Table 6
Cost of public facilities to serve the average of peak and permanent population
(Millions of dollars)

Year	Gulf of Mexico	Pacific	Alaska	Atlantic	Total
1977	0.9	0.5	--	--	1.4
1978	10.0	2.2	18.3	16.5	47.0
1979	15.0	8.0	30.5	33.1	86.6
1980	19.0	11.8	85.2	47.3	163.3
1981	4.6	8.3	117.0	15.6	145.5
1982	--	9.7	37.3	--	47.0
1983	--	2.2	--	--	2.2
1984	--	--	--	--	--
	49.5	42.7	288.3	112.5	493.0

Table 6A shows how the need for public facilities is met by providing assistance for the average of the peak additional population and the permanent additional population generated by OCS activities. ("Permanent" here is not truly permanent, but is for the producing life of the area. That lifetime is normally longer than the amortization lifetime of public facilities.)

Table 6A shows that during the exploration and development stages public facilities will be more than normally crowded for a period of about four years due to the presence of temporary population. In fact, this may not occur because of lags in secondary employment. Later as development phases out and the permanent production employment is reached, excess capacity in public facilities appears. Such excess capacity could be avoided by providing levels of capacity based on the permanent population.

The estimates of table 6A show that, using this policy approach, $201.4 million of the $493 million of public facilities investment would not be needed to serve permanent population. The $201 million would have been spent to alleviate temporary crowding.

Table 6A
Short falls and excess in public facilities capacity if capacity based on peak-permanent average (persons; negative numbers are excess capacity)

Year	Gulf of Mexico	Pacific	Atlantic	Alaska	Total
1977	--	--	--	--	
1978	--	--	--	--	
1979	--	--	--	--	
1980	--	--	--	--	
1981	1,868	--	5,018	--	
1982	3,825	--	10,696	9,316	
1983	3,119	2,151	10,642	15,373	
1984	1,670	2,259	5,612	16,198	
1985	-1,026	1,665	-1,242	8,601	
1986	-2,624	1,210	-6,741	-1,698	
1987	-3,830	18	-10,692	-11,976	
1988	NP	-1,323	NP	-15,544	
1989	NP	-2,263	NP	-16,198	
		($ Millions)			
Cost of excess capacity	19.2	11.3	53.5	117.4	201.4
Total cost for region	49.5	42.7	112.5	288.3	493.0

Table 6B shows the result of an alternative policy of providing capacity for the peak population. In this case there are no short falls of capacity or crowding but there is great excess capacity after exploration and development are ended.

In this case $403 million of the total costs of $694 million are expended to serve temporary peaks in population.

Table 6B
Excess capacity in public facilities if capacity based on peak population
(persons; negative numbers are excess capacity)

Year	Gulf of Mexico	Pacific	Atlantic	Alaska	Total
1983	-707	--	-54	--	
1984	-2,156	--	-5,085	--	
1985	-4,851	-594	-11,938	-7,597	
1986	-6,448	-1,048	-17,888	-17,896	
1987	-7,654	-2,241	-21,389	-28,174	
1988	NP	-3,582	NP	-31,742	
1989	NP	-4,522	NP	-32,395	
		($ Millions)			
Cost of excess capacity	38.3	22.6	106.9	234.9	402.7
Total cost for region	68.7	53.9	166.0	405.7	694.3

Refining and Construction

No estimate was included above for refinery employment because total refinery capacity needed is dependent on domestic consumption levels rather than upon the availability of domestic crude oil. Refinery capacity will be built; it will process OCS crude if it is available and foreign crude if OCS crude is not available. Table 7 shows the direct employment for processing the estimated OCS production.

Table 7
Refining incremental OCS production 1985
(Above 1976 base)

Area	Annual crude oil consumed (M bbls.)	All direct employees
Gulf of Mexico	343	8,100
Alaska	161	3,800
Pacific	385	9,100
Atlantic	190 1/	4,500
	1,079	25,500

1/ 1987

Existing refinery capacity used for processing foreign crude already (as of June 1974) equals or exceeds the estimated incremental OCS production in the Eastern region for Atlantic production and in the South for Gulf of Mexico production. The Pacific Coast and Alaskan OCS crude production estimate for 1985 is substantially greater than the present capacity in the West which is processing foreign crude. This may mean that crude from the Pacific and Alaskan OCS would be processed in new refinery capacity in the West which in the absence of OCS crude would be located elsewhere in the country and utilize foreign crude. Alternatively western OCS crude in excess of the region's needs might be transported to other regions in unrefined form. In any event, Alaskan OCS crude is not likely to be refined in Alaska. Table 8 shows these comparisons.

Table 8

Refinery region (OCS area)	Incremental OCS production estimate, 1985 (K bbls./day)	Using foreign crude 6-74	Refinery capacity (K bbls./day) Total 6-74	Total 3-75	Annual rate of (%) change
South (Gulf of Mexico)	940	942	5,275	6,223	24.7
West (Pacific & Alaska)	1,496	894	1,996	2,303	21.0
East (Atlantic)	370	1,325	1,519	1,760	21.7

Increased refinery capacity will probably be achieved largely by adding capacity to existing refineries rather than building new refineries from the grass roots up. Existing capacity increased very substantially between 6-74 and 3-75 without any significant additions of grass roots capacity. This will minimize fiscal impacts since existing refineries are largely in or very near urbanized areas so that refinery employees and their households are a negligible part of the local population.

Construction employment estimates have not been included for the following reasons:

- Mobile rigs will probably continue to be built in shipyards now in that business. Any additions to capacity are likely to be where there are already harbor and shipyard facilities. Such areas are usually already urbanized.

- Platform construction is also likely to be located where there are major harbor and shipyard facilities. (One possible rural site has been identified across the mouth of Chesapeake Bay from Norfolk.) Some of these areas, such as Boston, already have significant problems of unemployment and excess facilities that are not merely short term consequences of current economic conditions.

Conclusion

The employment figures summarized in table 9 below are probably the maximum or upper limit direct employment impacts that will result from OCS exploration and development. They assume very rapid exploration and development. Using total direct employment figures as a measure of fiscal impact on coastal jurisdictions implicitly assumes that all direct employees are new residents. The figures in table 10 summarize estimates of new residents resulting from OCS exploration and development. They are largely based on Louisiana experience but there is no reason to suppose that experience elsewhere will be drastically different except in Alaska. In Alaska the remoteness of the areas of exploration and potential development from all but the smallest of villages will probably mean that practically all employees in the exploration and development phases probably will be brought in from outside by the oil companies and will be housed, both on and off duty, in substantially self-contained company facilities. For this reason impacts on local governments during the peak exploration and development period are likely to be less than the figures on new residents would indicate.

Table 9
Maximum total direct employment from incremental OCS activities

Area	Peak development period	Production period
Atlantic	9,839	3,501
Gulf of Mexico	5,080	2,245
Pacific Coast	3,422	1,987
Alaska	8,141	3,429

Table 10
Estimated new residents directly employed
in incremental OCS activities

Area	Peak development period	Production period
Atlantic	3,752	554
Gulf of Mexico	1,943	423
Pacific Coast	1,276	441
Alaska	3,127 1/	535 1/

1/ These are the calculated figures for Alaska using Gulf of Mexico experience. They are considered unrealistically small for the reasons described in the text above.

The cost of public facilities to serve the peak population in each region would be about $700 million. About $400 million of this total would serve temporary (4 year) peaks in population and then become excess capacity.

A policy aimed at providing public facilities capacity to serve the average of the permanent and peak populations would cost about $500 million. It would not, of course, provide capacity to serve the peak populations. However, the degree of crowding during peaks of up to four years would be significantly less than if capacity were provided only to serve the permanent population. Basically it would be a compromise or trade-off between eliminating crowding during peaks and not having excess capacity to pay for over time. The cost of the excess capacity involved is $200 million out of the $500 million in total cost.

E

April 15, 1977

TAB E

Automatic Revenue Sharing and Louisiana's Situation

Issue. Does Louisiana OCS experience show that OCS activities impose public costs on adjacent coastal States which justify automatic revenue sharing from OCS receipts?

Background

The Louisiana Congressional delegation and State officials have, for several years, pushed for a program of automatic revenue sharing from outer continental shelf receipts.

They have supported their proposals by three main arguments:

- Oil production in Louisiana is declining in areas within the State's severance taxing jurisdiction and increasing on the OCS which is outside the State's taxing jurisdiction.

- That OCS activities impose public costs on the adjacent coastal States which cannot be recovered by State and local taxation, thereby causing a net fiscal loss to such States.

- That since the public lands States are entitled by law to a share of onshore mineral leasing receipts, the coastal States, as a matter of equity, ought to have a similar share of offshore receipts.

Based on the attached analysis, we conclude that:

- OCS activities have not in the past, and need not in the future, impose non-recoverable public costs. Indeed they can provide equal or better State and local income in relation to costs than manufacturing or retail trade or other mining.

- A change from the very heavy reliance placed on severance taxes in Louisiana's tax structure to more normal reliance on property and income taxes can easily make up for revenues lost through change in location of oil activities from State taxable jurisdictions to the Federal OCS.

Analysis

I. Louisiana Study of OCS Costs

Louisiana in 1974 contracted a study of their OCS industry and its fiscal impacts on the State and its local governments. That study concluded that OCS activities were costing the

State $38 million annually. Public costs generated by OCS activities were estimated to exceed State and local taxes generated by OCS activities by that amount.

The study made three errors which bias the result to make it appear that OCS activities don't pay their way:

- It assumed that 30% of all mining employment in Louisiana is OCS employment. OCS employment was in fact only 20% of total mining employment in the 1972 census of mineral industries. This error overestimated OCS employment and therefore public costs generated by OCS employment by 50%.

- It used per capita State and local expenditure figures which included a Federal contribution of about 20%. Using total per capita expenditures rather than just the State financed share exaggerates the per capita costs which must be funded from State and local taxes by 25%.

- It assumes that 50% of the costs of government services provided to manufacturing and construction firms serving the OCS will be uncompensated by taxes from those firms. In fact, the property owned by those firms and most of their operations are carried on onshore within the State's taxing jurisdiction. Therefore, the assumption is not credible.

If the analysis by the State's contractor is corrected for the first two of the above biases, the net fiscal loss to the State of $38 million annually becomes a net fiscal gain to the State of $84 million annually.

II. State ability to tax OCS activities

A. Make-up of the industry

The offshore industries in Louisiana in the 1972 mineral industries census were made up of:

Industry	All employees (thousands)	Gross book value of fixed assets ($ millions)
Oil and gas field operations Crude petroleum and natural gas	4.0	NA
Drilling oil and gas wells	4.6	324.1
Oil and gas exploration services	0.1	1.6 1/
Oil and gas field services, nec	3.2	90.2
	11.9	NA

1/ Estimated

Note that these offshore figures contain offshore operations in State waters which are fully subject to State taxes, including the severance tax.

If this employment were distributed between employment serving operations in State waters and employment serving operations in Federal waters in the same proportion as State and Federal offshore production, the Federally related employment would be 10.1 thousand.

Drilling oil and gas wells includes establishments doing drilling for others. Oil and gas exploration services are predominantly establishments engaged in geophysical surveys. Oil and gas field services not elsewhere classified includes establishments engaged in cementing wells; well surveying and well logging; perforating well casing; running, cutting and pulling casing, tubes or rods; cleaning out, bailing out and swabbing wells; acidizing and chemically treating wells; installing production equipment; and pumping wells but not operating leases. The category also includes many other field services establishments which are not separately classified in the statistics although they hold a majority of the fixed assets of the industry. Oil and gas field operations - crude petroleum and natural gas includes the actual production operations and any exploration, drilling and well serving operations not carried out by service contractors.

B. State tax authorities over the industry

States have the constitutional ability to tax OCS operations by:

- Imposing State sales or transactions taxes on transactions which occur within State borders, regardless of the ultimate destination of the good or service. Apparently Louisiana chooses not to tax transactions occurring within her borders, if the goods or services involved are to be delivered or provided to facilities on the outer continental shelf. The State could do so.

- Income from employees in OCS activities who are residents of the State may be taxed.

- Property related to OCS activities that is located within the State boundaries is subject to property taxes.

- Petroleum in storage could itself be taxed, even if it originated on the OCS and is destined for out-of-State use. (If it were put directly and immediately into an interstate pipeline, it would not itself be subject to tax.)

- Handling, storage, and refining processes within the boundaries of the State could have State excise taxes applied to them, subject to commerce clause scrutiny for discrimination.

- Ships and vessels (mobile drilling rigs, work boats, etc.) and other movable property can be taxed as property for the time during which they are within the jurisdiction of the State.

Although much of the fixed capital for the oil and gas fields operations industry is installed as permanent structures and equipment located in Federal waters, the industry will have significant capital investment located onshore within the State's taxing jurisdiction. Offices, pipelines crossing State waters and onshore, pipeline terminals, and support bases to supply and maintain exploration, development, and production operations will be located within the State's taxing jurisdiction. Various kinds of drilling and servicing machinery and equipment will be within State jurisdiction part of the time and in Federal waters part of the time.

Service establishments (drilling oil and gas wells, oil and gas exploration services, and oil and gas field services nec) will generally be based in onshore facilities. Their machinery and equipment will be stored, serviced, and maintained within the State's taxing jurisdiction.

C. OCS industry as a State and local tax base

The available statistics do not tell us how much fixed capital of the OCS industry is subject to the State's taxing jurisdiction. We can answer the question of how much would have to be so subject to make the OCS pay its way as well as other sectors of the Louisiana economy.

Taking manufacturing (excluding petroleum refining), retail trade, wholesale trade, selected services, and construction for Louisiana as a whole gives a total of 576 thousand employees.

Using the national average of fixed assets per employee for each of those sectors, the average fixed capital per employee is $8,763. This amount multiplied by the 10,100 OCS employees would be $88.5 million or 25% of the fixed capital of the three OCS service industries. In short, if 25% or more of the fixed capital of the three OCS service industries is subject to State taxation and all of the fixed capital of the oil and gas field operations industry escapes State taxation, OCS activities as a whole pay for themselves as well as the group of industries made up of manufacturing wholesale and retail trade, selected services, and construction. That percentage would be even lower if that capital in the oil and gas field operations industry which is subject to State taxes could be taken into account.

Refinery employment has not been included in the analysis up to this point because it is fully subject to State taxes. Approximately 64% of the refinery employment in Louisiana in 1972 was refining OCS oil. Including a pro rata share of refinery employment in the "OCS industry" would increase OCS employment to 15.5 thousand. It would also increase the fixed capital included in the OCS industry by a very large amount. Ignoring all OCS capital except refinery capital but using all OCS employment, the fixed capital per employee would be $50,065 or 5.7 times the amount of capital per employee in the manufacturing-trade-services-construction sector. All of this capital is within the State's taxing jurisdiction.

OCS activities provide other sources or potential sources of tax revenue to Louisiana. To the extent that employees are residents of the State their income is taxable. To the extent that OCS transactions occur within the State's jurisdiction they are taxable or potentially taxable. The table compares OCS shipments and receipts and payroll with those of other Louisiana industrial sectors. The OCS is shown for comparison in three ways:

- Including the employees, shipments and receipts, and the payroll of the share of the petroleum refining sector which serves OCS production.

- Including the OCS share of the refining sector, but not counting shipments and receipts from the non-refining OCS sectors. The rationale for not counting them is that some portion may not occur within the State's tax jurisdiction.

- Including the OCS sectors without counting the OCS share of the refining sector. A possible rationale for not counting refining would be the assumption that the refining capacity would be present whether or not the OCS production was. We consider this a highly questionable assumption.

Shipments and Receipts and Payroll per Employee
Louisiana 1972 1/

	Average $ per Employee	
	Shipments and Receipts	Payroll
OCS with refining	278,880	11,986
OCS with refining - nonrefining shipments and receipts ignored	139,775	11,986
OCS without refining	214,059	10,921
Agriculture	13,545	3,797 2/
Mining (excluding OCS)	138,051	10,825
Manufacturing (excluding petroleum refining)	46,059	8,676
Retail trade	39,114	4,586
Wholesale trade	142,897	7,926
Selected services	16,826	5,449
Construction	30,826	7,997

1/ Agriculture numbers are for 1969
2/ Earnings

Our conclusion is that OCS activities provide a far better tax base per employee than the rest of the Louisiana economy, if the related refining activities are included. If the refining is not included, the OCS industry is neither clearly inferior nor clearly superior as a tax base.

III. Louisiana Tax Structure

In 1974 personal per capita income in Louisiana was 81% of the U.S. average. Despite this in fiscal year 1975:

- Total State taxes were 6.9% greater than the national average.
- State property taxes were 0.1% of the national average. (Since the Louisiana State property tax was repealed on 1-1-73, current State property taxes were zero.)

- Sales taxes were 88.3% of the national average.
- State individual income taxes were 32.4% of the national average.
- Other miscellaneous taxes (excluding severance taxes) were 71.1% of the national average.
- Severance taxes were more than 17 times the national average.

In short, although Louisiana had only 81% of the national average per capita personal income, it was able, because of the severance tax, to keep all other tax categories well below the national average. While doing so it took in total tax revenue moderately exceeding the national average.

Per capita State taxes - fiscal year 1975 - $

	U.S.	81% of U.S. 2/	Louisiana
Total taxes	377.37	305.67	403.24
Property	6.83	5.53	0.01 1/
Sales	204.07	165.30	180.27
Individual income	88.60	71.77	28.72
Other miscellaneous	69.67	56.43	49.55
Severance	8.20	6.64	144.69

1/ Represents residual collections of back taxes from State property tax repealed 1-1-73.

2/ 1974 personal per capita income for Louisiana was 81% of the U.S. value.

For Louisiana State and local government as a whole, detailed 1975 numbers are not available. In the 1971-72 fiscal year:

- Louisiana per capita personal income was 78.5% of the U.S. average.
- Per capita property, sales, and individual income taxes together were only 67.5% of the U.S. average.
- Per capita property taxes were 42.2% of the U.S. average.
- Per capita individual income taxes were 38.7% of the U.S. average.
- Per capita total taxes were 82% of the U.S. average.
- Severance taxes were 1800% of the U.S. average.

Per capita State and local government taxes and income - 1971-72 fiscal year

	U.S. average	78.5% of U.S.	Louisiana
Total taxes	526.35	413.18	431.50
Property taxes	205.91	161.64	86.86
Sales taxes	180.17	141.43	194.89
Individual income taxes	73.12	57.40	28.32
Severance	3.65	2.87	65.71
Other taxes	63.50	49.85	55.72
Personal income	4,317	3,389	3,390

Because of this fiscal pattern Louisiana is heavily dependent upon receipts from severance taxes upon oil and gas production.

Crude petroleum production is in decline in Louisiana. Production from lands within the State's taxing jurisdiction was 548 million barrels in 1967. By 1973, such production had fallen to 450 million barrels. Meanwhile, production from Federal OCS waters off Louisiana was increasing from 219 million barrels in 1967 to 374 million barrels in 1973.

National gas production from lands within the State's taxing jurisdiction was 4,751 billion cubic feet in 1967 and 5,354 billion cubic feet in 1973. Federal production from waters off Louisiana increased from 965 billion cubic feet in 1967 to 2,889 billion cubic feet in 1973.

The 1972 Census of Governments first collected information on property totally exempt from property taxation. Of 17 reporting States, Louisiana had the lowest proportion of net assessed value to total value (all valued at the States' average assessment rates) - 41%. The median percentage was 72%. Property in Louisiana which would have been assessed at $4,802 million was totally exempt from property taxation because it belonged to new industries. The total net assessed value was $4,654 million. Subjecting that exempt industrial property to taxation in 1972 would have produced revenues that were 136% of the receipts from severance taxes.

Conclusions

- Louisiana has not suffered a fiscal loss from OCS development. It has gained substantially, instead.

- Generally, OCS development should provide a State and local tax base that is equal or superior to that of the rest of the economy. If refining is included, the OCS tax base should be greatly superior to that of the rest of the economy.

- Louisiana has enjoyed an unusually favorable tax situation because of the onshore and State waters oil and gas industries. Since those industries are expected to go into decline, Louisiana would prefer to capture a share of Federal offshore receipts rather than face the need to increase property, income and sales taxes to levels more usual in other States.

- Louisiana could replace all or a major part of current severance taxes with property taxes on new industry property which is now totally exempt.

- Louisiana has no legitimate claim on Federal offshore receipts which now benefit the national taxpayer.

~~CONFIDENTIAL~~

May 25, 1977

MEMORANDUM FOR: ROSALYNN CARTER

FROM: ZBIGNIEW BRZEZINSKI

SUBJECT: Kidnapped Peace Corps Volunteer in Colombia

As per the President's request, I transmit this file for your information.

~~CONFIDENTIAL~~

MEMORANDUM

CONFIDENTIAL

3020

THE WHITE HOUSE

WASHINGTON

CONFIDENTIAL

May 25, 1977

ACTION

MEMORANDUM FOR: THE PRESIDENT

FROM: ZBIGNIEW BRZEZINSKI

SUBJECT: Letter from Mother of Peace Corps Volunteer Kidnapped in Colombia

Mrs. Charlotte Jensen sent you a letter asking you to do all you could to secure the release of her son Charles Richard Starr, a Peace Corps Volunteer who was kidnapped in Colombia in February. The State Department has set up a Task Force to liaise with the Colombian Government in trying to secure Starr's release. The State Department has drafted a response to Mrs. Jensen, and I recommend that you sign it. Jim Fallows has cleared.

RECOMMENDATION

That you sign the letter to Mrs. Jensen at Tab A.

Approve ✓ Disapprove

✓ Send BCC Rosalynn

J

Done by ZB 5/25

DETERMINED TO BE AN ADMINISTRATIVE MARKING BY DATE 7/27/89

Electrostatic Copy Made for Preservation Purposes

~~CONFIDENTIAL~~

CONFIDENTIAL

Charlotte Starr Jensen
17400 - 76 Ave. W.
Edmonds, Wash. 98020
April, 21, 1977

President Jimmy Carter
White House
Washington D. C.

Dear Mr. President,

As mother of Peace Corps Volunteer Charles Richard Starr, who was kidnaped at La Macarena in Colombia, South America on February 14, 1977, I implore you and my government to do everything in your power to assure the safe and early release of my beloved son.

Since Richards capture, I have received no word concerning his welfare or whereabouts. As a mother, I am profoundly concerned about him, particularly because I know that he was ill at the time of his capture.

Richard was doing Botanical field research, at the request of the Colombian Government, at the time of his kidnaping and was strictly a botonist and scientist.

I was in Washington D. C. from March 8 to April 7. On March 17 I delivered a pack to the Red Cross containing medicine and clothes. As of this date, it is still in the Red Cross office in Washington D.C.

I have asked repeatedly for even one single thing that is being done to try to save Richards life. I am wondering why Richard was taken as hostage when there were Colombian officials at La Macarena at the time of the raid. Also, why he was not sent to a safe area since it is apparent, to me, that the raid was expected. Was he used as a political pawn? At no time was he involved in politics.

Since Foreign Governments can't protect our Peace Corps Volunteers, perhaps it is time for America to keep her sons and daughters on American soil. We have more than enough poverty and need to keep them busy at home. In March I sent a personal appeal letter to President Alfonso Lopez Michelsen of the Republic of Colombia but have had no response.

Richard is my only child. I hope that you and my government will do everything possible to see that he is safely returned to his family.

Respectfully,

Charlotte Starr Jensen

THE WHITE HOUSE

WASHINGTON

May 26, 1977

To Mrs. Jensen

I read your letter of April 21 with great sympathy, and I share your concern for your son, Richard.

As the son of a Peace Corps volunteer, I have a particular respect for the work volunteers perform, often at physical risk and personal sacrifice.

The Peace Corps tries to minimize that risk by careful screening of the sites to which volunteers are assigned, in order to avoid placing them in dangerous situations. Indeed, Richard is the first volunteer in the Peace Corps' 16-year history to be seized and held hostage for so long. We hope that his kidnappers will release him voluntarily once they understand that he is nothing more sinister than a botanist trying to serve the Colombian people.

The Colombian government and our own are doing everything they can to find Richard and bring about his safe release. Thanks in part to the efforts of U.S. officials here and in Bogota, the pack you mentioned in your letter has now been delivered to the Colombian Red Cross. We hope that the pack, and the personal items it contains, will reach Richard wherever he may be held, and that a channel of communication can be established which could lead to his release.

I have asked my wife, who is about to visit Colombia during her Latin American trip, to pass on to Colombian authorities my personal concern for your son's welfare.

Peace Corps and State Department representatives will continue to keep you fully informed of developments in Richard's case. I hope that we will soon have good news for you, as I know how heavily the present uncertainty and frustration must weigh on you.

Sincerely,

Jimmy Carter

Mrs. Charlotte Starr Jensen
17400 Seventy-sixth Avenue, West
Edmonds, Washington 98020